Should Aphria Inc (TSX:APHA) Stock Be on Your Holiday Shopping List?

Description

Aphria Inc (TSX:APHA)(NYSE:APHA) has been taking a beating in the markets lately. After a scathing report on the company written by hedge fund manager Gabriel Grego, its shares fell 34% in two days. The stock had already fallen 20% in the week prior to that, bringing its total losses between November 28th and December 5 to 55%. Ouch.

That said, Aphria shares have recovered this week, reaching as high as $8.20 on Tuesday. With the stock on the upswing and Grego having recanted some of his accusations, is it time to reconsider this beleaguered cannabis stock?

Possibly. But first we need to look at the company's business strategy to see how it will fare going forward.

Acquisitions galore

Aphria is an acquisition-hungry company. It wholly-acquired at least three companies this year, along with a number of other partial acquisitions. It also has a fourth acquisition (CC Pharma) in the works.

The amount Aphria paid for these acquisitions is in the hundreds of millions of dollars, and some of them may be worth it. Despite what some would have you believe, not all of Aphria's acquisitions have been worthless. Broken Coast Cannabis, for example, is a huge revenue earner for the company. However, it's not clear whether it or any other Aphria subsidiary is actually generating profit.

Aphria generally finances its acquisitions by issuing equity, which dilutes each common shareholder's stake in the company, so these acquisitions will need to pay off or this stock is in serious trouble.

Earnings

Aphria is one of the few marijuana stocks that has been cranking out positive earnings consistently. However, this is mostly thanks to gains on its investment portfolio, which consists of both cannabis stocks and TSX blue chips. I don't expect the next quarterly report to show a positive net income, since the TSX and cannabis stocks are down in this quarter. If we exclude investing activities from the equation, Aphria's operations mostly lose money, although they did eke out $2 million in operating profits in fiscal 2017.

Growth

Now, let's touch on an undeniable positive for Aphria that can't be argued with: revenue growth.

Aphria grew its revenue 117% year-over-year in Q1 fiscal 2019. It also increased its kilograms sold and decreased its cost per gram. What this means is that, through all the controversies, this company is still growing sales and becoming more cost-efficient in its grow ops. Unfortunately, I can't say that the company is becoming more cost-efficient overall, as its adjusted EBITDA loss from operations was $0.8 million.

However, that operating loss is much smaller than what some of Aphria's peers have to contend with, so it's not horrible. Personally, I won't be investing in Aphria anytime soon, but that's only because I categorically dislike cannabis stocks. I don't see this stock as notably worse than others in the same sector.

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