



## Is Aphria Inc. (TSX:APHA) a Buy Ahead of its Q2 Report?

### Description

**Aphria** (TSX:APHA)(NYSE:APHA) stock rose 5.82% on January 7. Shares have climbed 23% over the past month, but the stock is still down 47% over a three-month span. The stock plummeted to a 52-week low of \$4.76 in early December after Aphria was targeted by a highly publicized short-seller report.

The [Hindenburg Research report](#) alleged that Aphria's international acquisitions were largely bogus, calling into question its growth strategy heading into this year. Aphria quickly responded and stood behind its LATAM acquisitions in Columbia, Argentina, and Jamaica. Differing theories were rampant in the days following the report, and some speculated that the short report was part of a larger campaign in a bid to acquire Aphria for cheap.

Columbus-based Growth Brands announced a takeover bid for Aphria in late December that valued the company at \$2.8 billion. The offer valued Aphria shares at \$11 each, which, at the time, would have represented a 45.5% premium for shareholders. Growth Brands would later deny business links with Aphria. However, Aphria CEO Vic Neufeld reportedly had business dealings with the Schottenstein family, the principal investor of Xanthic Biopharma. Xanthic operates in the cannabis market as Green Growth.

The revelation of connections between the two companies has attracted some criticism, and Aphria has absorbed bad press in the past over its ethics when it came to its acquisition of Nuuvera. This gives investors something to think about, as Aphria prepares to release its second-quarter results on January 11.

This will be the first batch of results that will include post-legalization earnings. Aphria released its fiscal 2019 first-quarter results back on October 12. The company reported annual production capacity at Aphria One at 30,000 kilograms and 5,000 kilograms at Broken Coast. Demand for legal cannabis in Canada surged in the days following legalization, but [supply has been a problem](#) in the early going.

Aphria is well positioned to meet this demand in early 2019 and has secured supply agreements with every Canadian province and the Yukon territory.

Its international holdings were a huge draw for investors who were hoping for a positive run in 2019 and beyond. A recent *BNN Bloomberg* report hinted at some positives at its LATAM Jamaica location. The October-November harvest was reportedly the largest, and the farm has the capacity to increase its annual production to 16,000 kilograms. Quintessential Capital Management, which co-authored the report with Hindenburg Research, has continued to call the farm's value into question.

Ultimately, these holdings represent a fraction of Aphria's total assets. The company's production capacity is projected to reach 255,000 kilograms annually this year. Aphria also boasts solid liquidity with over \$300 million of cash on its balance sheet. Shares have bounced back following the short report and the "surprise offer" from Growth Brands, but investors should keep in mind that this fledgling industry is still small and interconnected.

Aphria does not boast the value it did immediately following the short report, but its domestic operations are tops in the young industry. The stock is still a speculative buy in the single digits ahead of its second-quarter earnings release.

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