This Could Be the Best News on Aphria Inc (TSX:APHA) Stock This Month

Description

After some several months of waiting, **Aphria** (TSX:APHA)(NYSE:APHA) management finally achieved a very important corporate milestone that will significantly support the stock's valuation going forward.

The company announced on Monday that it finally received full production licences for its expanded flagship facility Aphria One from Health Canada after a very long waiting period (way longer than **Aurora Cannabis's** wait). This is great news for several important reasons.

A massive jump in productive capacity

The recently amended production licence permits the company to commence production from 800,000 square feet that were made available after the company's Part IV and Part V expansions that were completed last year, allowing the company to significantly ramp up production.

Annualized production has therefore increased to a staggering 115,000 kilograms per annum from a mere 30,000 kilograms per annum by February 2019.

The company has achieved a critical production milestone that will allow it to significantly sustain a higher revenue run-rate and to compete on a better footing with the leading giants in the nascent industry.

The recent massive jump in deferred revenue to over $35 million (163% of quarterly revenue) in the latest financial statements was typical of a company that had high hopes of meeting increased demand but faced a technical challenge and failed to deliver marijuana on target.

That technical glitch was likely related to the delayed licensing of its two completed facilities during the year. Management were previously anticipating to reach a 255,000 kilogram per annum production run-rate by January this year.

Future cost reductions

Investors may expect to see the company reporting a lower average cost to produce a gram of cannabis later this year.

Due to productive capacity constraints, the company saw its cost of producing marijuana rise from $0.95 a gram by August 2017 to a staggering $1.76 per gram by November last year as higher investments and an increased head count saw increased cost overheads being spread across a few crops.

Higher productivity will result in lower average production costs, all things equal, and this may allow the company to reclaim its low-cost producer status later this year.

That said, I'm not sure the company will be able to produce cannabis at insanely low costs like **OrganiGram Holdings** does right now. A cultivation cost of $0.56 per gram is still a distant dream for most industry players.

Better chances at operating profitability this year

With improved productivity and lower production costs comes the potential for improved profitability future quarters.

The company could see a welcome boost to its adjusted gross margin, which had fallen to 47% for the recently reported quarter (from 64% in a prior quarter), and there is a better chance at improving its adjusted EBITDA margin by the third quarter of 2019. The company's lower operating expense profile allows it to have a lower breakeven point than Aurora Cannabis.

Higher revenue and lower average costs could cause the company to report positive adjusted operating earnings from Canadian operations by November this year after a long positive earnings steak was unfortunately broken last year.

One problem still remains

Aphria Diamond, the company's other massive facility that was retrofitted last year, is yet to be licensed. Management was anticipating a first harvest from this facility by January this year, but Health Canada is yet to give the nod for this facility to commence production months after construction works were completed.

However, this facility is 51% owned by the company, and all production from there will be sold to the company "at an agreed-upon transfer price," which is most likely higher than current average production cost; hence, we may see a slight increase in average cost of sales per gram once the facility comes online.

Investor takeaway

The recent licensing receipt from Health Canada changes a lot of things for the marijuana firm. The company is in a better position to claim its place among the top marijuana firms in Canada, and its stock could regain more favour among investors, even from some of those frustrated by last year's short-seller revelations.

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