



Aphria Inc (TSX:APHA) Gets the Green Light for Expansion: Should You Buy the Stock?

Description

If any Canadian marijuana producer has had a wild ride over the past year, it would have to be **Aphria** (TSX:APHA)(NYSE:APHA). After a fourth quarter of 2018 that included [short attacks](#), lawsuits, and a [hostile takeover bid](#), the company entered 2019 with a major management shakeup that fundamentally transformed the company.

For months afterward, it was all quiet on the Aphria front. But now, the company is back in the news with an announcement that it has received clearance from Health Canada to pursue a major expansion project. This news is a signal that Aphria could be gearing up for even more growth after increasing revenue 154% year over year in its most recent quarter. To understand why this news is so big, we need to take a look at what exactly Health Canada approved.

Health Canada approves expansion

For marijuana growers, nothing is more important than production space. The ability to meet the growing demand for cannabis in this country requires significant grow space, and so far, the cannabis growers don't have enough of it. As a result, the post legalization era has been marked by major supply shortages.

For Aphria, that may be about to change. Earlier this month, Health Canada approved an 800,000-square-foot expansion to the Aphria One grow space in Leamington. This new space will have the capacity to produce 110,000 kg of marijuana a year for about \$800 million in revenue at the current cannabis selling price.

\$1 billion in revenue predicted

Partially as a result of the recent expansion, Aphria is now forecasting \$1 billion in revenue by the end of 2020. The math behind this makes sense given the figures above: the space the company is adding

will be able to generate \$800 million a year, and that's on top of the company's existing space, which drove about \$13 million in sales in the most recent quarter. This would represent phenomenal revenue growth, the only question being whether demand for cannabis will be strong enough to justify it.

Takeover seems unlikely

A final point about Aphria is worth mentioning — this one pertaining to the much-discussed hostile takeover bid from **Green Growth Brands**.

Thanks to all the good news coming from Aphria, it seems unlikely that the Green Growth bid will go through. The all-stock bid valued Aphria at about \$9, but with the company's meteoric growth, its stock has risen to \$13 so far this year. Assuming this price level holds, Aphria will be well out of Green Growth's reach. This is good news for Aphria shareholders, since it means they won't be forced to exchange each of their shares for 1.5 shares in a much less proven enterprise. This, combined with the recently approved expansion, indicates that this once maligned company may have a bright future ahead of it.

CATEGORY

1. Cannabis Stocks
2. Investing

POST TAG

1. Cannabis

PARTNER-FEEDS

1. Msn
2. Newscred
3. Sharewise
4. Yahoo CA

Category

1. Cannabis Stocks
2. Investing

Tags

1. Cannabis

Date

2025/08/22

Date Created

2019/03/29

Author

andrewbutton

default watermark

default watermark