3 Takeaways From Aphria Inc's (TSX:APHA) Q3 Results

Description

Aphria (TSX:APHA)(NYSE:APHA) released its third-quarter results on Monday. The company's revenues were up more than 600% in what was its first quarter with a full three months of recreational sales. However, with Aphria recording a loss of more than $108 million, investors were left unimpressed, as the stock dropped 14% on the day the results were announced.

It was a bit of a mixed bag of results for the company, but here are three things that stood out to me in Aphria's latest quarterly results.

Costs to produce cannabis are rising

Aphria has long positioned itself as a low-cost producer. And yet, during this past quarter, it saw its costs continue to rise. In Q3, costs to produce dried cannabis per gram were $1.48, which is up 10% from Q2 when costs were just $1.34. And if we look at "all-in" costs per gram, that also rose from $2.60 in Q2 to $3.76 for an increase of 45%.

With rising per-gram costs, it's no wonder that Aphria's gross margins before fair-value adjustments were just 18%. That's a very low margin, and if that continues it's only going to get more difficult for Aphria to stay out of the red.

LATAM assets were significantly overvalued

Last year, we heard about short-sellers being critical of Aphria's LATAM assets and that they were heavily overvalued. Well, on Monday, we got confirmation of just that as the company had write-downs of $50 million relating to those assets.

For investors, it's troubling because it calls into question Aphria's decision making and whether management is making good acquisitions or not. Certainly, in this case, it doesn't look good and might have investors second-guessing Aphria next time the company makes a big acquisition or investment.

Company is still nowhere near breakeven

Even if we take out the $58 million that Aphria incurred in impairment charges this past quarter, it still wouldn't be nearly enough to pull the company out of the red. There's, unfortunately, no shortage of issues plaguing the company and preventing it from being profitable. Low margins, rising operating expenses, and losses from non-operating items are some of the areas that need to be addressed before investors can have any real expectation that Aphria will be profitable.

Bottom line

Aphria achieved strong sales growth but not much else in its latest quarter. And while sales growth has been enough for marijuana stocks thus far, investors made it clear that that isn't the case anymore. Otherwise, we would have seen the stock jump on earnings rather than crash.

Investors are paying some big premiums to own marijuana stocks; without some more substance behind them, it's only going to become more difficult to justify keeping the stocks. Aphria has typically lagged behind some of its bigger competitors in the industry, and while it's been off to a great start to 2019, these results may bring the bears back out.

And with no permanent replacement yet for Vic Neufeld, there's still a lot of risk and uncertainty surrounding the company today.

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Date

2025/08/27
Date Created
2019/04/16
Author
djagielski