Aphria Inc. (TSX:APHA) Disappoints: Is the Stock Price Attractive Today?

Description

I have long written about the problem with cannabis stocks and their valuations and the expectations that are built into them.

I've also written about the strong likelihood that higher-than-expected spending, shareholder dilution, and slower-than-expected revenue growth will likely be very detrimental to stock prices.

The industry, cycle, and growth are in their early stages.

Aphria (TSX:APHA)(NYSE:APHA) reported its third-quarter 2019 earnings this week, and we saw all of these things, with Aphria stock plummeting almost 15%.

Revenue increased less than expected, growing 240% versus last quarter to $73.5 million, and EPS dropped to a net loss of $0.43 versus net income of $0.22 last quarter. And even if we adjust for the writedown of the Latin American asset, Aphria's net loss was still a hefty $0.20 per share.

General and administrative expenses increased due to the company's expansion efforts, and while these expansion plans are a necessary expense for long-term growth and prosperity, we can see them impacting the bottom line here.

Looking ahead to next quarter, management has given us guidance to revenue and expenses being at similar levels as the company works on its long-term expansion plans and consequently takes this hit in the short term.

I'm all for that, but this means that investors need to be prepared for continued short-term volatility and weakness.

Cannabis stocks are down on this disappointing result, which saw EPS miss expectations by a significant degree and sales miss by 12%.

And while the company is arguing that its production and packaging issues are temporary, these issues were clearly not being priced into the stock. Though the company has 2.4 million square feet of production capacity, and this production is being completely revamped, switching it from manual to automated, is a positive, the market has reacted negatively.

Though this investment will ultimately bring down costs significantly, there remains a lack of visibility, so downside risk remains big.

In closing

Aphria is targeting annualized revenue of $500 million by the end of this calendar year, and $1 billion in sales by the end of the 2020 calendar year.

I would look at these disappointing results from Aphria and its consequent stock price weakness as the beginning of the stock adjusting to the realities of what the future holds for the company, which is both great and not so great.

As time goes on and the risks and uncertainties are lessened, cannabis stocks will increasingly be valued on financials and clear strategic progress.

This time is coming.

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