



Aphria Inc (TSX:APHA) Investors: Pay Attention to These 3 Things

Description

Aphria Inc (TSX:APHA)(NYSE:APHA) stock is under fire. After reporting third quarter earnings, shares fell by 20%.

Based on nearly any metric, the quarter was horrendous. Aphria struggled to bring new production online, experienced rising corporate and packaging costs, and took a \$50 million write-down on its newly acquired Latin America assets.

As we head into the fourth quarter, here are three important trends to monitor.

Production guidance

Demand for cannabis worldwide continues to explode. By 2030, Canadian demand could reach \$10 billion annually while the U.S. could surpass \$40 billion. To meet this heavy growth, cannabis growers are scrambling to ramp production quickly.

Aphria's management team has revealed its plans to eventually reach \$1 billion in annual sales, but recent quarters have thrown that lofty goal into doubt. In fact, the company now anticipates flat revenue growth for the fourth quarter. What happened?

It turns out that scaling commercial-grade facilities in under 12 months is extraordinarily difficult. We've seen other disrupters like Elon Musk attempt similar feats and fail.

If Aphria can't ramp its production this year, it will be leaving millions of dollars on the table. While new production facilities won't come online until the second half of 2019, pay close attention to the details when management updates its anticipated production growth.

Cost controls

While scaling production can be difficult, doing it in a cost-efficient manner is even more troublesome.

Last quarter, Aphria's corporate costs went up across the board. Not only did it need to expand its employee count, but Aphria also failed to automate most of its production as promised.

Incredibly, most of its packaging is still done by hand. If it can't figure out how to automate this core process, Aphria will struggle to bring down costs alongside its competitors.

In April, company executives specifically highlighted their new focus on "automation and the development of new growing facilities," but declined to give an exact date by which investors should expect these upgrades, instead noting that they are "mid-term" priorities.

Aphria's management team keeps pushing its cost-cutting efforts into the future, but if it wants to win back the trust of investors, it needs to provide a solid plan for boosting margins.

Short sellers

Short sellers, investors who bet that a stock will fall in value, can wreak havoc in an instant. While many investors choose to ignore short sellers, pegging them as opportunists, it's critical that you hear and judge their arguments for yourself.

Earlier this year, Quintessential Capital released a report evaluating Aphria's stock following months of research, including visits to the company's facilities in Jamaica, Argentina, and Colombia. The conclusion was dire.

Quintessential Capital charged Aphria insiders with creating and buying shell companies, changing their names and then selling them to Aphria at artificially-inflated prices.

The fact that Aphria has already taken a multi-million dollar write-down on its Latin America acquisition adds considerable credence to these allegations.

If Quintessential Capital is correct, there could be at least \$200 million in additional write-offs to come.

You can bet that Quintessential Capital will be looking to push more damning information about Aphria public over the next few months. You'll want to pay attention to anything else they reveal.

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