



Cannabis Stock Aphria Inc. (TSX:APHA) Hits the Restart Button: Time to Buy?

Description

Aphria (TSX:APHA)(NYSE:APHA) has a presence in more than 10 countries with five high-quality brands, including its Soleil brand, addressing different segments of the cannabis market. It is one of the more attractively valued [cannabis stocks](#).

With Aphria's third-quarter fiscal 2019 earnings results, we saw its stock price get hit hard, plummeting almost 15% on the day of the release.

The disappointment was in the fact that 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.

But the quarter seems to have been a bit of a reset quarter.

Aphria wrote down its Latin American acquisition, which it decided to do in conjunction with the SEC, who requested a review of it. So, this was part of the reason for the earnings shortfall, but it was not the full story. Because even after we adjust for the writedown, Aphria's net loss was still a hefty \$0.20 per share.

So, here are some of the more positive points from the quarter and management's update.

Drive to automation

Aphria has 2.4 million square feet available to it for cannabis production. The company is in the midst of transforming its process from a mostly manual one to an automated one.

With this new industrial scale automation, we will see margins improve substantially.

The adjusted gross profit margin was 18.2% in the quarter compared to 46.9% in the second quarter; costs crept higher as the company moves toward scale and automation.

Big sales targets

Sales and margins next quarter will be similar to this quarter, as the company continues to focus on long-term growth, and this may cause short-term stock price weakness.

Management expects annualized revenue of \$500 million by the end of the calendar year and \$1 billion by end of the 2020 calendar year.

Two new directors

Two new independent directors have joined Aphria, one of which was formally a director of the immensely successful Whole Foods chain.

Final thoughts

As time moves forward, the risk of investing in [cannabis stocks](#) continues to decline.

This is because visibility is slowly improving, companies are proving themselves, and while spending is still happening at a fast and furious pace, the ultimate goal of earnings is approaching.

Recently, we have been seeing weakness in Aphria stock, which is down 22% since February highs. I believe this weakness will continue in the short term, which will give investors the opportunity to add the stock at lower prices going forward.

So, I would start thinking of dipping my toes in, but I would only buy on weakness.

Be patient and disciplined and pick your entry points wisely.

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