Aphria Inc (TSX:APHA) Is Sinking Fast: Is Now the Time to Buy Low?

Description

Nothing earthshaking happened when **Aphria** (TSX:APHA)(NYSE:APHA) reported its latest quarterly earnings, except for the sharp drop in the stock price. That pattern has been same whenever cannabis producers present their earnings results. Every story is predictable — whopping revenues and a mountain of losses.

For the first time, Aphria's earnings results included a full quarter of adult-use sales. APHA sunk in the aftermath primarily because revenue was worse than expected and losses continue to soar. So, what else is new? Can we anticipate Aphria to improve in the near term, or is it better to shelve any buying intention?

Quick review of the numbers

The quarter in focus is the one ending on February 28, where total revenue amounted to $73.6 million. The figure represents a staggering +617% increase compared with the same quarter last year. Aphria attributed the surge in sales to the revenue contributions by Argentina's ABP and Germany's CC Pharma.

The two recent purchases by Aphria combined to deliver distribution revenue to the tune of $56 million. Recreational sales accounted for only $7.2 million, which is even lower than the $11 million sales reported in the preceding quarter.

Medical cannabis brought in only $10.6 million sales — a 33% increase year over year but still 2% lower than the previous quarter. The change in revenue complexion weighed heavily on the profitability of Aphria. What was envisioned as high-margin cannabis turned sour and ended with low-margin drug distribution.

Several factors also crippled Aphria. The most telling ones are the drop in average marijuana prices in the adult-use market, very steep packaging costs, and surging operating expenses.

Still, Aphria's profitability is anchored on margins. Gross profit did increase by 32.67% to $13.4 million owing to the 10-15% gross margin range coming from the new distribution businesses. But overall, Aphria's gross margin fell drastically from 46.9% to 18.2%.

The added financial burdens are the 700% increase in the general and administrative expenses to $22.4 million and the selling, marketing, and promotion costs that ballooned by 131.67% to $6.95 million.

Lastly, the company defrayed $50 million on its Latin American assets as impairment charge. In summary, Aphria incurred a net loss of $108 million ($0.43 per share) in the last quarter.

Hazy future

Aphria lost credibility big time. Adult-use marijuana was supposed to deliver the profits. The annualized production of fewer than 30,000 kg last quarter did it in. The company also did not foresee the packaging woes and the hefty impairment charge.

Management is left with no bragging rights at the present. The company is optimistic that the recently approved expansion of Aphria One would get it back on track.

The annual production capacity can increase to 115,000 kg. Aphria Diamond will boost annual production to 255,000 kg once completed and fully operational.

But the key to regaining investors' trust is adult-use marijuana. Its sales should account for the bigger portion of revenue, not distribution sales. The future is hazy and Aphria needs to work double time.

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
2025/08/26
Date Created
2019/04/21
Author
cliew