



Aphria Inc. (TSX:APHA): Should You Buy the Post-Earnings Dip?

Description

Aphria (TSX:APHA) stock has tumbled 17.4% month over month as of close on April 23. Shares are still up 34% in 2019 so far. Earlier this month I asked whether investors [should buy the stock](#) ahead of its fiscal 2019 third-quarter earnings report. I expected the stock to receive a bump, as Aphria looked like it would post a solid follow-up to a good Q2 fiscal 2019 report. Aphria's third-quarter report would go on to disappoint.

The company released its most recent earnings report on April 15. Net revenue did jump 240% from the prior quarter to \$73.6 million, which represented a 617% spike year over year. However, Aphria reported a net loss of \$108.2 million compared to a \$12.9 million profit in the prior year. Earnings were dragged down by a \$50 million non-cash impairment on its Latin American assets.

Many investors will remember the late 2018 short report that targeted Aphria and sent its stock plummeting below the \$5 mark. Hindenburg Research called Aphria's Latin American resources into serious question. Aphria forcefully rebuked the short report, but the company would soon after undergo a significant executive shake up as CEO Vic Neufeld stepped down in early January.

Hindenburg Research took to Twitter to draw attention to the writedown. In the near term, the short-seller does appear to have bragging rights. Still, third0party research from BNN Bloomberg indicated that Hindenburg's short report was an exaggeration. The writedown should set off alarm bells, but subsequent quarters will reveal whether Aphria is facing a real crisis when it comes to its Latin American assets.

Beyond the writedown, Aphria saw a pullback in its cannabis sales in the quarter. The company sold 2,637 kilograms of cannabis in the three-month period ending February 28 compared to 3,409 kilograms sold in the second quarter. This was blamed on "packaging and distribution challenges" and various supply shortages. Chairman and CEO Irwin Simon said that the company intentionally pulled back on its plants to make way for new product in Q3 fiscal 2019, which also explains the decline in shipments.

Should Aphria investors concede or try to weather the storm?

Aphria stock is currently trading at the low-to-mid end of its 52-week range. Shares had an RSI of 33 as of close on April 23, putting the stock close to oversold territory.

Judging by current production projections from Aphria of 255 tons, the company is looking at revenues that could exceed \$1 billion at full capacity. Of course, this means that Aphria will need to secure buyers for its production. Industry experts warn that the market could go from facing shortages after recreational legalization to quickly becoming over-saturated in terms of production by 2020. Sales fell from December 2018 to January 2019 in Canada, which is a concern for the broader sector.

Last week I'd warned that the [bear is looming](#) for the cannabis sector this spring. Aphria can overcome its growing pains, but investors should temper expectations after this setback. I like Aphria as a long-term addition at its current price, but only for investors who are prepared to stomach volatility that will likely strike this sector in the near term.

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