



3 Reasons Aphria Inc's (TSX:APHA) Stock Has Been Tanking

Description

It's been almost six months since cannabis was legalized nationwide, and marijuana stocks are once again on the rise.

One, however, is not rising with the tide. Over the past month, shares of **Aphria Inc** (TSX:APHA)(NYSE:APHA) have fallen 18.8%, with a particularly sharp sell-off having occurred in the past week. If you zoom out to a longer time horizon, the losses have been even greater: since November 7, 2018, the stock is down 39%.

It's not entirely surprising that Aphria would suffer a decline in shareholder sentiment. After all, this is the stock that recently suffered [short attacks](#), lawsuits and a controversial management shakeup. However, Aphria is also one of the fastest-growing cannabis producers, having increased net revenue by 600% in its [most recent quarter](#)—easily beating bigger names in the industry.

For Aphria investors, it pays to know why their stock is sinking, so they can make an informed decision on whether to cut their losses or hold. With that in mind, here are three of the main reasons Aphria is dropping like a stone.

Massive Q3 loss

As previously mentioned, Aphria did enjoy a revenue boost in Q3. However, that boost was not enough to save the company from losing money: in that same quarter, it lost \$108 million. Reasons for the losses included increased costs and a reduction in the fair value of the company's biological assets.

Debt on the rise

Another possible reason for Aphria shares falling is that the company is loading up its balance sheet with even more debt. Debt and equity dilution have long been major concerns for Aphria, which faced sharp criticism last year over over allegations that it was overpaying for acquisitions.

These concerns formed part of the thesis of short sellers who attacked the stock in December. For a while, Aphria managed to contain its acquisition fever, but now it's back in full force, with the company having announced it was selling \$300 million worth of convertible notes to fund its global expansion.

Of course, debt is not necessarily a bad thing. If Aphria's global expansion efforts pay off, then the leveraging will have been worth it. But for a company with a reputation for overspending, a huge debt issuing can be a concern.

Recreational sales down

A final factor that could be driving Aphria shares lower is falling recreational cannabis sales.

In Q3, Aphria reported that its recreational sales were down 34% from Q2. Factors responsible included fewer grams sold (1.3 million vs 1.9 million), as well as a lower pre-tax selling price per gram.

Among all the factors I've mentioned thus far, this reduction in recreational cannabis sales is the most likely culprit for Aphria's tanking stock price. While cannabis investors have overlooked massive losses and rising debt before, they're not likely to look the other way on disappointing recreational sales results.

Legalization was the catalyst that was supposed to send weed stocks to the moon; now that Aphria's recreational sales are sliding, it begs the question of whether the company's strong Q2 sales were nothing more than a blip on the screen. Aphria's performance in this regard could bode poorly for other cannabis producers who may also find their recreational sales tapering off for similar reasons.

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