Is Aphria (TSX:APHA) the Best Marijuana Stock to Buy Today?

Description

Aphria (TSX:APHA)(NYSE:APHA) stock tanked after a controversial research report from a hedge fund accused the company of being a shell with a marijuana business on the side. Over the last year, Aphria's stock has lost 16% compared to the outsized gains of its peers, including industry leader **Canopy Growth** surging by 63% and **Cronos Group** gaining a whopping 175%.

This has triggered considerable speculation that marijuana stocks have entered an asset bubble and that Aphria could be the only realistically valued cannabis company. The flipside is growing fear that it could all be over for Aphria with the cannabis cultivator having expanded too rapidly while failing to ensure that internal governance met the standards expected by investors.

There is no denying that the cultivator's past acquisition activity has been questionable. Aphria reported a shocking fiscal third quarter 2019, which resulted in a $108 million loss compared to a profit of $13 million a year earlier. This can be attributed to a $50 million non-cash impairment charge being booked against the value of the Latin American assets Aphria purchased in 2018.

The cultivator reported a significant increase in operational costs, which saw all-in sustaining costs (AISCs) per dried gram of cannabis expand by 44% year over year to $3.76. The volume of marijuana sold also declined, falling by a worrying 23% year over year to 2,637 kg. These issues offset an impressive seven-fold increase in revenue to $73.6 million.

While there is likely further pain ahead for Aphria and its investors, it appears that the worst is over, including the distraction created by the **Green Growth Brands's** hostile takeover bid for the company. Even the resignation of Aphria's president Jakob Ripshtein shouldn't concern investors, because this could be nothing more than Aphria clearing its decks after last year's questionable acquisitions to rebuild market confidence and recommence growth.

Aphria's key strength is its significant international presence, including in Colombia, where conditions are far more favourable for the cultivation of cannabis than Canada and many other parts of North America. The cultivator has acquired a 90% interest in Colombian cultivator Colcanna, which owns 54 acres of land in Chinchina in the department of Caldas, which is in the heart of Colombia's coffee region. On completion of the greenhouses and other growing infrastructure, it is anticipated that property will produce around 50,000 kg of high-grade cannabis annually, which Aphria is permitted to export.

Another advantage is that Aphria is in the process of more than doubling its current production capacity of 115,000 kg of marijuana annually to 255,000 kg by the end of 2019. That significant step-up in capacity will give earnings a solid boost, particularly if the global legal marijuana market grows at the rate predicted by analysts. According to consultancy Grand View Research, the legal global marijuana market is expected to be worth around US$146 billion by 2025, which represents an annual compound growth rate of 35%.

Aphria was recently awarded approval to cultivate medical cannabis in Germany, making it the only company licensed to grow all approved strains of medical cannabis in the nation while further bolstering its presence in Europe.

The company is certainly well positioned to continue growing at a solid clip. Aphria finished the third quarter with almost $108 million in cash and $27 million in marketable securities, while its long-term debt is a modest $62 million.

Those characteristics make it an attractive partner for a tobacco, pharmaceutical, or liquor company seeking to expand into the legal cannabis market. While 2018 was an unpleasant year for Aphria and its shareholders, there are signs that many of the headwinds threatening its operations are easing significantly. After the sharp sell-off of its stock, it appears to be the most attractively valued of the major marijuana companies, especially when its large cash holdings, moderate debt, and solid growth potential are considered.

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