



Should Aphria (TSX:APHA) Investors Be Panicking Right Now?

Description

These past few months have been a rough ride for **Aphria** (TSX:APHA)(NYSE:APHA) investors. After reaching a peak closing price of \$14.21 in February, the stock began sliding later that month, with the downtrend accelerating in April. By May 17, the stock was trading at just \$9.19 — a 35% decline from its peak price.

The decline in Aphria's share price comes after a brutal 2018 for the company, which saw it the target of short attacks, lawsuits, and even hostile takeover attempts. Earlier this year, it appeared that Aphria had brushed off the last of its woes, after **Green Growth Brands** announced that it was dropping its hostile bid against the company. Now, however, it looks like Aphria is facing a whole new — and potentially more troubling — set of problems.

Why Aphria stock is falling

Aphria's stock selloff is likely related to uninspiring earnings figures that the company recently released. Although the gradual cooling off from February to April is hard to explain, the steeper April-June selloff occurred around the same time that the company released an earnings report showing that its recreational sales had been declining.

Specifically, the company reported [35% lower recreational pot revenue](#) than it had in the prior quarter. Although the company's revenue grew 600% year over year in that same quarter, a decline in recreational sales is a big concern, since this product category is the main catalyst expected to drive cannabis sales growth in the future. It's also worth noting that in the same quarter Aphria posted a massive \$108 million net loss, up from \$12 million in the same quarter a year before.

Do the bears have a strong thesis?

Anybody who is bearish on Aphria right now has some strong facts to support their thesis. In addition to the already mentioned factors, there's the fact that the company has been shaking up its management team — with the departure of CEO Vic Neufeld being a major point of contention.

Although Aphria and Neufeld stated at the time that the resignation was not related to the issues the company was facing, the departure of a C-Suite executive with such timing always raises questions.

Reasons for optimism

There are some reasons for optimism about Aphria. With 600% year-over-year revenue growth, it's one of the faster-growing cannabis companies. The company also has a lucrative long-term investment portfolio that, in past quarters, helped give it positive net income when other cannabis producers were losing money. Finally, Aphria has a strong international presence, including [major operations in Columbia](#) — a country where conditions are considered to be favourable for cannabis growing and cultivation.

Foolish takeaway

Aphria's months-long downtrend has definitely been alarming but is not unusual for the cannabis sector. Remember, this industry has significantly more volatility than most, and every single cannabis grower out there has seen a 50% selloff at some point in the past three years. As for whether Aphria's investors should be panicking, it depends on whether they're able to handle that kind of volatility over the long term.

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