1 Cheap Marijuana Stock to Buy in June

Description

One-time market darling **Aphria** (TSX:APHA)(NYSE:APHA) has failed to bounce back after being punished by the market in the wake of a research report where it was claimed that management had defrauded stockholders and that the business was a sham. While industry leader **Canopy Growth** has gained 24% over the last year despite recent weakness, Aphria is down by almost 29%. Coupled with recent developments, this makes Aphria a compelling buy for any investor seeking exposure to cannabis.

A growing market

The impending legalization of cannabis edibles, extracts and topicals by no later than October 17, 2019 will give the domestic market a massive lift and attract consumers turned off by the consumption of dried marijuana. According to regulations drawn up by Health Canada, Single-serving products will be limited to 10 milligrams of tetrahydrocannabinol (THC), the chemical responsible for marijuana's psychoactive effects.

It will include making marijuana infused candies, drinks and vapes available through retailers, which will significantly broaden the consumer market, thereby removing much of the stigma traditionally associated with consuming dry cannabis. A key concern is the limitation of THC to 10 milligrams per serving, as many within the marijuana consumables industry believe that is insufficient to provide any psychoactive effects.

Nonetheless, according to consultancy Deloitte this round of legalization will add $2.7 billion to Canada's burgeoning cannabis market, creating ever greater opportunities for leading cultivators such as Aphria and Canopy Growth. While Canopy Growth's alliance with packaged liquor company **Constellation Brands** leaves it well positioned to enter this market, it is Aphria that could ultimately prove to be the best investment.

Aphria underwent considerable pain given the adverse research report, announcing some less than stellar third quarter 2019 results as it moved to address the issues raised and reposition its business. This included reporting a sharp increase in production costs with cash costs per gram of marijuana produced rising by 10% year over year to $1.48 and all-in sustaining costs (AISCs) by a whopping 45% to $3.76.

Aphria also booked a $50 million non-cash impairment charge on the Latin American assets acquired in 2018, which were the subject of particularly scathing criticism in the negative research report.

Those moves have cleared the way for Aphria to recommence focusing on building its business and distribution channels.

The marijuana cultivator is working to more than double is production capacity from current levels to 255,000 kilograms annually. It has established a larger viable distribution network having agreements in place in every Canadian province and the Yukon Territory, which according to Aphria allows it to reach 99.8% of all Canadians.

Aphria recently entered an agreement with PAX Labs of San Francisco to provide premium cannabis extracts in pods for use in their vaporization devices. This allows it to further expand its product offering for when the sale of marijuana extract products commences and give sales a healthy boost and could also see Aphria challenge Canopy Growth's domestic leadership.

Foolish takeaway

Cannabis stocks are not as hot as they were a year ago, but recent declines in value have created an opportunity for investors seeking exposure to the industry to invest at far more reasonable valuations. Aphria is fast shaping up as the most appealing of the lot, as it has the scale, distribution channels and expertise to ramp-up its business to meet growing demand while being attractively valued.

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mattdsmith