



Is Aphria (TSX:APHA) Stock an Undervalued Bargain?

Description

Summer may be here, but the sun is not shining on marijuana shareholders. After a series of quarterly reports that missed analyst expectations, the sector as a whole began tumbling, with **Horizons Medical Marijuana Life Science ETF** sliding 29% since March. While the marijuana sector is growing faster than ever, expenses are beginning to spiral out of control, with no clear path to profitability. Granted, it's normal for young companies to post losses, but the fact that marijuana losses are growing ever larger as a percentage of revenue is not a good sign.

On the surface, **Aphria** (TSX:APHA)(NYSE:APHA) looks like yet another weed producer that can't get its spending under control. Its most recent quarter saw a huge jump in operating expenses resulting in a net loss that was approximately seven times greater than revenue. When this news was revealed, Aphria stock predictably began tanking — with good reason. However, as a result of the tanking price, Aphria shares are now among the cheapest in the marijuana sector, making them potentially undervalued relative to growth.

One of the cheapest marijuana stocks

Aphria is easily one of the cheapest marijuana stocks out there, with a price-to-sales ratio of 17 and a price-to-book ratio of 1.22. If you balk at the thought that a share price of 17 times sales is cheap, remember that marijuana is an ultra-high-growth sector where many top companies run at price-to-sales ratios of 50 or more. Of course, because Aphria lost money in the trailing 12-month period, it's impossible to calculate a positive P/E ratio for the stock — so the most popular valuation metric isn't applicable. However, some analysts give it a forward P/E of about 90, which isn't crazy for a stock growing sales at 600% year over year.

Digging deeper into Q3 earnings

As previously mentioned, Aphria grew its sales at 600% in its most recent quarter. That's phenomenal growth for any stock; even for the weed sector, where 300% year-over-year growth is common, it's above average.

However, what's more interesting is where Aphria's Q3 growth actually came from. It was not primarily from selling more weed, but rather from distribution revenue originating out of two of the company's acquisitions: [ABP and CC Pharma](#). This shows that, contrary to [short-seller claims](#), Aphria's acquisitions are actually adding value to its operations — a particularly encouraging sign considering that the marijuana sector has seen many expensive acquisitions that yielded little more than grow space or intellectual property.

What's next?

It's one thing to say that Aphria is one of the cheaper marijuana stocks around, but quite another to call it a bargain. A price-to-sales ratio of 17 is very high, and while Aphria's growth is incredible, it's not clear that Q3's pace can continue forever. Ultimately, I'd want to see a clear trend of profitability from Aphria before calling it a buy.

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