



What to Look for When Aphria (TSX:APHA) Reports Earnings on Thursday

Description

On Thursday, **Aphria** (TSX:APHA)(NYSE:APHA) will report its financial results for its fiscal year 2019 as well as its fourth quarter — the three months ending May 31, 2019. Here are some things to watch out for when this controversial company reports its numbers.

Kilograms sold

The headlining figure for the upcoming report will be the total kilos that Aphria sold in Q4, particularly on the recreational side. Q3's sale volumes came in well below estimates, with 1,329 and 1,274 kilos (and equivalents) sold in the recreational and medical segments, respectively, compared to 1,947 and 1,444 in Q2. In terms of market share, Q3 saw Aphria's rec-use market share fall to 8.3% for Canada-wide sales from December to March compared to 19.7% during September to December's operations.

The poor performance was attributed to supply shortages, as the company transitioned growing methods during the fall and winter months, as well as temporary packaging and distribution challenges. For Q4, I anticipate that Aphria will have worked through most of its supply chain bottlenecks and we will see a rebound in sales. I am forecasting 2,454 kilos and 1,423 kilos sold in the recreational and medical segments, respectively, implying ~49% more volumes than the weak third quarter.

Pricing power

Another factor behind Q3's underperformance was the decrease in average price per grams sold for recreational usage to \$5.14/gram compared to \$6.32/ gram in Q2, as the company revamped its product mix for smaller sizes to maximize SKU assortment and shelf space. I anticipate the average price realized to remain below \$6/gram in Q4, as the company continues to experiment with different SKU combinations.

On the medical side of things, I am focusing on percentage of sales from oils, as these represent higher-margin offerings than dried flower. Furthermore, I will also be looking for any colour on the average prices realized for sales from Aphria's marquee brand: Broken Coast.

International revenues and writedowns

Aphria's management has forecast a run rate of calendar year 2020 revenues to hit the \$1 billion mark. A large portion of this growth is expected to come from international channels. In that regard, I am keeping my eye on the performance of **CC Pharma** — Aphria's primary international acquisition and leading distributor of pharmaceutical products and medical cannabis to 13,000 pharmacies in Germany and the rest of Europe.

In Q4, I anticipate distribution revenues from CC to come in at \$62 million, up from the \$56 million in Q3. On the other side of coin, Aphria conducts its annual impairment tests in Q4, and there is a very good possibility that the company will report further writedowns of its underperforming LATAM assets.

In summation, kilograms sold will be headlining figure, followed by average selling price per gram and international sales as well as write-downs. This coming quarter will be a pivotal one, as it will reflect the success (or failure) of Aphria's 90-day turnaround plan, product mix, and progress on its supply chain woes.

If you want to know why I believe Aphria is a buy at these levels, please see my previous article [here](#).

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