Aphria (TSX:APHA) Stock Soars on Record Q4 Profit

Description

Aphria (TSX:APHA)(NYSE:APHA) reported a record increase in adult-use sales and a profitable fourth quarter on Thursday. For the quarter ending May 31, 2019, Aphria reported earnings per share of $0.05. Adult-use sales soared 158%, contributing to a near 1,000% increase in net revenue from last year.

The company's NYSE-listed shares surged over 30% in after-hours trading. Before the earnings report, the NYSE listed shares were trading 25% below the TSX equivalent at $5.20 per share.

This morning, TSX traded shares jumped 25% on market open to almost $9, and the NYSE shares held steady at around $6.80. The exchange rate between Canadian and U.S. dollars is US$0.75 for every CAD$1. Using this currency exchange rate to equate the share prices, disparate volatility between the exchanges may have created an arbitrage opportunity for savvy investors.

Either the NYSE shares are overpriced, or the TSX traded shares are underpriced.

Aphria subsidiary opens hip Jamaican smoking lounge

On Monday, Aphria announced that Jamaica's Cannabis Licensing Authority approved a retail licence for its 49%-owned subsidiary Marigold Projects Jamaican Limited. Marigold will open its first store in Kingston, Jamaica at an existing five-acre cannabis farm in August 2019.

The farm — named the Sensi Medical Cannabis House — is located across from a hip museum dedicated to the late reggae musician, Peter Tosh. The new retail centre will open with a starting inventory of 2,700 kg of cannabis and a smoking lounge for on-site consumption. Adult users will be encouraged to purchase the products and stay awhile.

Jamaica may yet become the next Amsterdam.

Aphria debt rises on increased investment

In the past year, Aphria has increased its debt by almost 20%. Meanwhile, its share value fell by about the same amount. Given the above-average stock market volatility in cannabis, the debt-to-equity preference indicates that the company may be more interested in attracting low-cost debt rather than expensive equity.

For a public company in its early stages, a preference for low-cost financing makes sense. Since last year, cannabis stocks have been subject to short sells, short squeezes, and outsized reactions to company news. The volatility in the stock market means less secure equity financing for the company.

Thus, Aphria's leadership may be uncomfortable with the level of equity volatility and may feel safer accruing debt instead.

Foolish takeaway

The price distortions caused by speculative trading also makes it challenging to price cannabis stocks realistically. Nevertheless, looking at Aphria's price-to-book (P/B) ratio, it may be underpriced. The shares trade at a P/B of 1.03, far lower than the industry average of 4.56.

Aphria has been growing at a steady but profitable pace. It may have received less attention from investors than **Aurora**, **Cronos**, and **Canopy Growth**, but the company has a lot to offer cannabis investors.

Aphria's role in the cannabis industry is like the tortoise in the parable of the tortoise and the hare. In this story, Canopy is the hare and Aphria is the tortoise. Aphria is continuously poised to take on new markets as they open — and report surging sales — but it doesn't overinvest too soon. Meanwhile, Canopy surges ahead into tricky territory and consistently takes on more risk — like in its Colombia investments.

While each strategy has its benefits and drawbacks, TFSA and RRSP investors may feel more comfortable investing in the slow and steady Aphria.

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