Is Aphria (TSX:APHA) Stock a Buy After its "Relief Rally?"

Description

Up a staggering 40% at close of play Monday, **Aphria** (TSX:APHA)(NYSE:APHA) just pulled off the marijuana equivalent of a World Cup win after a resoundingly positive quarterly report. Its Q4 gave cannabis investors what they had been waiting for for so long: the first profit posted by the big-name producer in five quarters. After spending some time in the doldrums following the previous quarter's weak results, Aphria is back in the black.

Profitability and output combined under new management

However, the bear case for Aphria holds that this surge was nothing more than a relief rally and that the risks inherent in the sector remain not only high but dangerously real. A newcomer to the cannabis space will have to weigh these two perspectives and take the middle path — something that the majority of pundits often find hard to navigate. So, is confidence in Aphria a lasting trend or a relieved blip after last year's battering?

Under new leadership and with positive recent quarterly results under its belt, Aphria is a very different beast from last year's battered victim of a savage short attack. However, the +40% rally, while encouraging, could be viewed as simply bringing the cannabis grower's valuation closer to that of its peers, and presents an opportunity for patient shareholders to cash in. Indeed, a selloff might be the logical next movement in this space.

A smart play for longevity, growth, and upside

However, with a future outlook that could see year-on-year growth tripled and EBITDA margins improved by almost a third, Aphria could be a top pot stock to buy on the inevitable dip (the stock is already back down 5%) and hold onto through 2020. A combination of new management and profitability has essentially turned Aphria into a different stock from 2018's embattled pot grower. Throw in a market cap in the billions and a global footprint covering five continents, and you have a winner.

By production capacity, Aphria ranks as Canada’s third-largest cannabis grower, with an expected output of 255,000 kilograms per year. Since supply shortages were one of the limiting factors when recreational cannabis debuted last fall, being able to pump out bales of the green stuff puts Aphria front and centre of this exciting new growth industry. It’s also trading with competitive market ratios, offering a decent play for wide investor profit margins.

Investors eyeing **Cronos** and **HEXO** should note that these companies most recently posted gross margins in the 49-56% range. This means that, with gross margins soaring to 53%, Aphria is now in line with its competitors. And while an uptick in medicinal marijuana sales was impressive at 11% (remember, this is a mature, low-growth segment), it’s the 143% growth in recreational cannabis sales that really knocked it out of the park.

The bottom line

Aphria is still a decent play for value in the legal marijuana space and could reward shareholders with future rallies as its bottom line improves. The company has reversed the trend it set last year, with high growth and encouraging profitability. While the recent spike has been a textbook opportunity to short, this company is one of the few that could go the distance and is looking like it could be a solid alternative to a long position in Canopy Growth.

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