Breaking Down Aphria's (TSX:APHA) Incredible Earnings Report

Description

Unless you've been living under a rock, you might have noticed that marijuana stocks have been all the rage lately. One of the larger cannabis players, **Aphria** (TSX:APHA)(NYSE:APHA), recently released its earnings report. Pay attention, as the earnings report was a pleasant surprise for many investors.

After Aphria reported its earnings on August 1, which was for the fourth-quarter 2019 fiscal year ended on May 31, the company's stock soared by about 40%. Aphria had just announced total revenue of $128.57 million for the fourth quarter. This brought the total revenue for the year to $237.11 million with an EBITDA of $27.72 million. It marked the first time any company in the cannabis industry made a profit to the tune of $15.76 million.

These numbers are impressive on their own, but it is the growth of the company that is truly mind blowing. In the third quarter of 2019, Aphria had made $73.58 million in revenue. The company grew revenue by an astonishing 74% in the fourth quarter to $128.57 million. Market experts were expecting Aphria to have $103.5 million in revenue for the quarter, but the results beat all market expectations.

Revenue in the fourth quarter of 2018 was only $12.3 million resulting in a $4.99 million loss. Even though only medical marijuana was legal in Canada back then, this is a more than 10 times growth in revenue.

How did Aphria manage this?

The growth of earnings reported can be largely attributed to an increase in production, from 2,636 kg in Q3 to 5,574 kg in Q4 of 2019. This is thanks to Aphria's acquisition of CC Pharma earlier this year and other distribution companies. Adding to that, recreational marijuana has been up in price per gram from $5.14 to $5.73.

Cannabis companies have focused on generating revenue and earnings, and Aphria has proven to be rewarding to its shareholders. Investors have also noticed the solid growth by the company, and short-sellers have cut the bets they had on Aphria.

According to analytics firm S3 Partners, there was a $23.6 million decrease in the value of APHA shares shorted by market bears, the largest decrease among the 150 cannabis companies tracked by the analytics firm. Meanwhile, short bets on its competitors like **CannTrust** and **Canopy Growth** continued to increase.

Market confidence in Aphria prompted the company to predict even higher revenues in the 2020 fiscal year. The company hopes to receive between $650 and $700 million in revenue with an EBITDA of between $88 and $95 million.

A couple caveats to consider

The numbers point to Aphria as a strong buy for investors in the coming year, but there are caveats to consider. First is that most of the revenue was not gained from the cannabis business but rather from the distribution business. The former only accounted for $29 million of the total revenue while the distribution done by CC Pharma accounted for the rest.

Finally, you should be concerned about the company's goodwill that stood at $670 million relative to $2.44 billion in total assets. Many of Aphria's acquisitions have gone to goodwill, and this amount will have to be written down at some point. Already, $50 million was written down in the 2019 fiscal year for its Latin America assets, and more will be written down in the future. This would mean a loss of over 15% of the company's assets and up to $1.5 loss per share.

All in all, Aphria seems to be a worthy place to invest your hard-earned money, and a marijuana company with solid fundamentals and a bright future.

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