Investors: Here’s Why Aphria (TSX:APHA) Is a Solid Long-Term Pick

Description

Shares of **Aphria** (TSX:APHA)(NYSE:APHA) have made a strong comeback recently. The stock has gained 25% since the start of August 2019. While Aphria shares have fallen 60% since September last year, they are up by an impressive 1,050% since its IPO in December 2014.

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Most cannabis stocks have generated significant returns in the last five years, despite a steep pullback over the last 12 months. Investors have experienced a roller-coaster ride, especially since October 2018, when shares came plummeting down, driven by fears of overvaluation.

Many of the pot stocks are trading at ridiculous multiples and are due for a correction. But is this the right time to buy cannabis stocks again? Most pot companies will continue to grow revenue and expand production capacities at a robust pace. But will investors remain cautious due to regulatory concerns that have been plaguing this industry lately?

Revenue estimated to rise 189% in fiscal 2020

Aphria is another cannabis company that is watched closely by investors and analysts. Aphria’s sales are estimated to rise by 189% to $685.38 million in fiscal 2020 (year ending in May) and 40.5% to $963.1 million in 2021. Comparatively, analysts expect its earnings per share (EPS) to rise by 329% in 2020 and 87.5% in 2021.

It needs to be noted that Aphria was the first top cannabis company to post a positive EBITDA and net income in the fourth quarter of fiscal 2020. Aphria stock is also trading at a forward P/E multiple of 28.7, which makes the stock grossly undervalued given its earnings growth going forward.

Aphria is valued at just three times its 2020 sales, which is way lower compared to peer cannabis companies. An inexpensive and profitable high-growth cannabis company should excite investors.

The market opportunity for Aphria

Aphria aims to leverage its strong brand positioning and extensive distribution model in Canada to grow sales. The company has banked on its data and consumer insights to design in-house brands and target the most profitable consumer segments.

It has estimated the total addressable market (TAM) at $150 billion. According to Aphria, the TAM in medical cannabis is $100 billion, while adult-use cannabis is valued at $50 billion. It expects the domestic market to be valued at $9 billion by 2024 with adult-use cannabis accounting for $6 billion of this segment.

Aphria has supply agreements with every Canadian province and the Yukon territory. It has access to 99.8% of Canadians. The company has a medical distribution agreement with Shoppers Drug Mart, which is one of the top retail pharmacies in the country.

Aphria has also partnered with Southern Glazer, which is North America's leading wine and spirits distributor. This exclusive partnership will help Aphria penetrate international markets in the United States and the Caribbean.

The verdict

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Aphria will soon have a combined annual domestic production of 255,000 kg, which will be among the highest in the industry. The company just received approval from Health Canada for its 1.3 million square feet manufacturing plant. It has one of the largest cultivation footprints among cannabis players.

Given Aphria's increasing manufacturing capacity, partnerships, and low valuations, the stock looks like a solid long-term bet.

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