



## Is Aphria (TSX:APHA) Canada's Top Pot Stock?

### Description

Cannabis stocks remain under considerable pressure. Regulatory [investigations](#), poor financial results, and slower-than-anticipated market growth have been weighing on the industry. Leading cultivator **Aphria** (TSX:APHA)(NYSE:APHA) was the target of a scathing research report released towards the end of 2018, which claimed that the company was essentially a fraud.

Since then, the company has made significant efforts to rebuild its image, expand its operations, and implement a range of efficiencies to boost profitability and unlock value for investors. This has triggered considerable speculation that Aphria may be the best Canadian pot stock for investors seeking exposure to the burgeoning industry.

### Better-than-expected results

While there is still a long way to go for Aphria and the industry, the company released [better-than-expected](#) fiscal fourth-quarter 2019 results, which beat analyst estimates. This included a surprise fiscal fourth-quarter 2019 profit of \$15.8 million compared to a \$5 million loss a year earlier. That positive development can be attributed to a substantial increase in revenue, which grew by an impressive 88% year over year to \$33.5 million because of a significant increase in marijuana sales for recreational consumption. Lower costs were also a major factor, with all-in cash costs (AISCs) for the quarter falling by a healthy 18% year over year to \$2.35 per gram sold.

Despite this fourth-quarter profit, Aphria still reported a full-year loss of \$16.5 million compared to a \$29.5 million profit a year earlier. There are signs, however, that the cultivator's business and financial performance will continue to improve, making it highly likely that it can achieve its fiscal 2020 forecast. This includes net revenue of \$650-\$700 million and adjusted EBITDA of \$88-\$95 million.

Aphria is poised to continue delivering value for investors. It has established one of the largest cultivation footprints in the legal cannabis industry with the ability to currently produce 115,000 kilograms annually. The company is expanding its operations at a solid clip, including its licensed facilities in Canada through the Aphria Diamond extension, which, upon approval by Health Canada, will boost Aphria's cultivating capacity to 255,000 kilograms.

The cultivator has a growing distribution network where it has established a presence in over 10 countries and is positioning itself to become a leader in the German medical cannabis market. Aphria is a licensed cultivator in Germany and earlier this year completed the acquisition of CC Pharma, which is a leading German distributor of pharmaceutical products. That gives it a solid footing on which to continue scaling up its presence in what some industry insiders claim as one of the most lucrative medical marijuana markets in the world.

## Foolish takeaway

Key to Aphria's success is its growing distribution network, large cultivation footprint, and ability to access multiple markets globally. While sentiment may have turned against cannabis stocks, legal marijuana and derivative products are here to stay in a global market, which some sources estimate to be worth up to US\$150 billion by 2025. The impending legalization of edibles in Canada will further boost Aphria's outlook.

After surging because of its better-than-expected fourth-quarter results, Aphria has followed other cannabis stocks lower, pulling back sharply to be down by 43% over the last year. This has created an attractive entry point for investors seeking exposure to the burgeoning legal marijuana industry and a company poised to become a leading global player. Compared to many of its peers, Aphria is attractively valued trading at just under nine times sales and 27 times forecast earnings.

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### Date

2025/07/21

### Date Created

2019/08/29

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