3 Reasons Why Aphria (TSX:APHA) Is a Buy-and-Hold Stock for the Next 5 Years

Description

With the entire sector facing steep losses, investors must be especially picky when it comes to selecting the right cannabis name. Thankfully, **Aphria** (TSX:APHA)(NYSE:APHA) has made this a straight-forward affair, thanks to a blockbuster fourth quarter.

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Based on recent developments and the stock's current valuation, here are three reasons why Aphria is a definite "buy" for the next five years.

Gaining market share and margins

Much like its peers, Aphria was able to enjoy higher recreational cannabis sales in this fast-growing market, with total kilos sold for adult-use increasing by 143% from the prior quarter. But more than just an increase in top line, Aphria was able to score higher margins thanks to demonstrable pricing power, with average selling price per gram of $5.73 vs. $5.14 in Q3, combined with all-in costs per gram of $2.35, down from $2.85 during the same period.

This is in contrast to competitors such as **Canopy Growth** and **Aurora**, which saw their realized prices fall 13% and 3%, sequentially. With sector-wide margins expected to come down further over the next year, Aphria's brilliant execution means the company has the resources to weather the storm.

European foothold will be key driver of future revenues

While Aphria might not have the same lofty U.S. ambitions as its peers, the company is beginning to break ahead of the pack when it comes to its European strategy. For example, Aphria has managed to land the most cultivation lot licences of any Canadian LP in the lucrative German market.

Furthermore, Aphria's takeover of pharmaceutical distributor CC Pharma has translated to strong revenue growth, with distribution revenues coming in at $99.2 million, up from $57.6 million in the prior quarter. For fiscal 2020, Aphria has guided to distribution revenues of roughly $350 million, whichwould imply a more than two-fold increase compared to 2019.

Valuation looks very attractive

Despite its strong execution on the home front and overseas expansion, Aphria is trading at a shockingly low valuation of three times its 2020 sales, which is in sharp contrast to peers like the ever-expensive **Cronos Group**, which trades at 16 times 2020 sales.

Of course, a lot of this valuation discount can be attributed to the scandals Aphria faced under the leadership of its previous CEO, but with a new management team at the wheel, who have exhibited clear execution prowess, I believe this discount will be short lived. Furthermore, with a relatively clean capital structure, strong balance sheet and the potential of a major partnership deal with a Fortune 500 company, Aphria looks extremely attractive at these levels.

The bottom line

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Although the cannabis sector has seen its share of underperformers, Aphria is a fallen star that is begging to return to its former glory. And based on what we have seen from its management team thus far, I see no reason why it shouldn't. In other words, pick up this bargain name at these levels and reap the rewards over the next five years.

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