



Why Aphria (TSX:APHA) Was the Best Marijuana Stock of the Summer

Description

Over the summer, **Aphria** (TSX:APHA)(NYSE:APHA) has been one of the best-performing marijuana stocks, rising mightily while the rest of the weed sector sank. For the entire summer, APHA is itself down slightly but nowhere near as much as the industry as a whole, which slid about 23%.

Aphria's winning summer was a surprise to many people. Last year, the company was one of the leastpopular weed stocks after a short-seller report came out accusing the company of making worthless acquisitions at premium prices. However, a recent earnings report vindicated the company, showing that its acquisitions were, in fact, generating strong sales. As a result, Aphria has come back into favour and turned into one of the best-regarded weed stocks.

Here's how it happened.

Surprise profits

The key to Aphria's comeback was its Q4 quarterly report, which revealed rising adult-use sales, dramatic revenue growth, and increasing profitability. The company posted \$128 million in revenue, 5,574 kilograms of cannabis sales, and \$15.8 million in net income. The company also had positive operating income — a rare feat for a marijuana producer in 2019.

Contrary to last year's short-seller claims, a big part of Aphria's good fortunes came from its acquisitions. Two of the company's new subsidiaries — ABP and CC Pharma — generated \$99 million in revenue, making up the lion's share of total sales. This makes Aphria one of the biggest weed producers by revenue, and it's encouraging to see that the company's acquisitions are really paying off.

Another highlight for the quarter was adult-use sales, which rose 158% after falling 35% in the prior quarter.

Best of a bad bunch

Another factor that helped Aphria become the best weed stock of the summer was the simple fact that other marijuana companies performed so poorly. Between **Canopy's \$1.28 billion net loss** and **CannTrust's regulatory scandal**, there wasn't a whole lot of good news coming out of the industry.

Legalization was supposed to be the massive boon that sent weed stocks hurtling toward the stratosphere, and while the event did provide a massive revenue boost, it wasn't enough to compensate for rising expenses. In this environment, Aphria has proven itself to be one of the few profitable marijuana stocks and one of those best able to grow not only from legal sales at home but also from overseas acquisitions.

Foolish takeaway

Aphria was far from a huge winner this summer. Down 7% since June 21, it has actually been in a somewhat bearish long-term trend. However, after its August rally, it has fared better than any of its peers in the same period.

Even with its growing profits, it's still not clear that Aphria is a buy, but it's clearly preferable to any other company in the same industry for now.

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