Are Naysayers Right About Aphria (TSX:APHA)?

Description

Aphria (TSX:APHA)(NYSE:APHA) is no stranger to controversies and negative publicity. Shares of the cannabis company started tumbling in early December because of alleged insiders' mischief.

A short-seller contends that Aphria is only a shell game with a marijuana business on the side. The charge was that the company bought its LATAM assets at inflated prices.

After the Ontario Securities Commission found that the assets had lower margins and higher-than-expected expenses, Aphria was meted a non-cash impairment charge of $50 million.

The company's woes did not stop there. In February 2019, **Green Growth Brands** made an unsolicited buy offer, which Aphria's board rejected, claiming the offer undervalued the company. These issues and more led cynics to say that Aphria has a slim chance of recovering lost ground.

Aphria was able to prove the prophets of doom wrong. APHA is the best cannabis stock to buy if you want exposure in the fastest-growing industry today.

Know your risk tolerance

This is the year of the cannabis sector. The industry itself, however, is extremely volatile. You must have a high tolerance for risk if you want to invest in marijuana stocks. The first question is, how much capital are you willing to risk in weed stock like Aphria?

Let's look at the stock performance to understand the attendant risks. APHA was trading at $10.51, then dropped by 52.42% to $5 due to the short-seller's issue. When the hostile bid came in February, the price rose to $14.21, or a gain of 184.2%.

APHA started sliding when the company's board rejected the offer. On August 1, the day Aphria would present its latest quarterly earnings, the stock closed at $6.90. With Aphria's surprise profits, the price spiked 40.14% to $9.67.

Clearly, the price swings are news driven. As of this writing, APHA is trading at $9.07. The erratic price movements reflect the cannabis sector's extreme volatility. Nearly all cannabis companies are experiencing wild price swings.

If you don't have a high-risk appetite, weed stocks are not the right investments for you.

High risk = high reward

Weed stocks offer tremendous earnings opportunities. But as in any investments, the higher the rewards, the higher are the risks. With Aphria's surprise profit, it's the most profitable weed stock today , although it remains a risky investment.

Aphria has several catalysts to drive growth in the coming months. The company's newly expanded area planted more than 200,000 plants. The 100-acre Aphria Diamond is awaiting Health Canada's licensing approval.

Once Aphria obtains full licences, its production capacity could swell to 255,000 kilograms. Aside from Canada, the company can cultivate marijuana in Germany after the government gave Aphria the maximum number of lots.

Another tailwind is the market for vapes and concentrates, which Aphria forecasts to represent 30% of Canada's adult-use market by 2021.

Go slow on weed stocks

Aphria's interim CEO Irwin Simon recently said, "We had our customers, consumers, shareholders, employees all mad at us. I had to pull everyone together." His statement seems to suggest that Aphria is not yet back on track.

Analysts are projecting an upside of 186.65% in the next 12 months. Aphria is the perfect example of a high-risk and high-reward stock.

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Date
2025/07/04
Date Created
2019/09/10
Author
cliew