



## Aphria (TSX:APHA) Continues to Beat Cannabis ETF and Peers in 2019

### Description

Shares of **Aphria** (TSX:APHA)(NYSE:APHA) are up 3.3% since the start of 2019. While this performance is far from impressive, Aphria has managed to beat the performance of peer cannabis stocks and ETFs.

Aphria has gained 17.5% since the start of August and has made a strong comeback over the last month and a half. Comparatively, cannabis ETF **Horizons Marijuana Life Sciences ETF** is down 8.5% year to date and has returned -12.5% since the start of August 2019.

Larger players such as **Aurora Cannabis** and **Canopy Growth** have fallen -2% and -14.6%, respectively, in 2019. Aurora and Canopy have lost considerable value in the last two months driven by [weakness in the cannabis market](#) as well as poor quarterly results.

### Why has Aphria outperformed in 2019?

We know that two key drivers of a company's stock price are its earnings and revenue growth. Aphria almost doubled its revenue from \$20 million in fiscal 2017 (ended in May) to \$37 million in 2018. Sales then rose 540% to \$237 million in 2019. Analysts estimate Aphria sales to rise by 187.5% to \$681.71 million in 2020 and 40.2% to \$955.72 million in 2021.

But several cannabis companies have managed to grow revenue at an exponential rate over the years. Here is where Aphria stands out. While most marijuana producers are still unprofitable, Aphria is estimated to post an adjusted profit by the end of 2020.

Analysts, in fact, expect the company earnings to rise by 157% in 2020 and a whopping 700% in 2021. Aphria stock is currently trading at a forward price-to-earnings multiple of 25.4, which indicates that it has significant upside potential.

### Aphria will soon double its manufacturing capacity

Aphria Diamond is a 51% majority-owned subsidiary which was incorporated in November 2017. Aphria Diamond has applied for a second site cultivation licence, which will increase the company's manufacturing capacity from 115,000 kg to 255,000 kg. Once the licence is acquired, Aphria will have a total cultivation facility of 2.4 million square feet.

Aphria EMEA is another subsidiary group that operates in Europe's cannabis market. Several companies are banking on the growth of medical marijuana in Europe as the continent will soon become the largest market for medical cannabis products.

Aphria's press release states, "The company has production operations presence in Germany and Lesotho. The production presence in Germany has expanded in the current year with the company obtaining five cultivation lots from the German government. In addition to obtaining the maximum number of lots within the tender process, the company stands as the only licensed producer in Germany with the permission to grow all three strains of medical cannabis approved by the BfArM."

Aphria is also looking to launch cannabidiol offerings for medical and cosmetic products in Germany.

## The verdict

Aphria shares were publicly listed back in September 2016. The stock has gained an impressive 131% since its IPO. But Aphria is still trading 63.5% off its 52-week high. In case the company gains the required licences from Health Canada its massive increase in production capacity will help it drive sales considerably higher.

Aphria's low valuation multiple makes it an attractive bet for investors. Though there are growing concerns over vaping products and its impact on individual health, the second wave of edible legalization should drive investor optimism higher and boost Aphria's stock price.

Analysts covering Aphria have a 12-month average target price of \$14.94, indicating upside potential of 84% from the current price.

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