



Why Aphria (TSX:APHA) Stock Fell 10% Last Week

Description

Last week was a rough one for **Aphria Inc** (TSX:APHA)(NYSE:APHA) shareholders, who saw their holdings decline by 9.74% in a single week. Although recent months have been bad for cannabis stocks in general, the sell-off in APHA is hard to explain, as the company has been performing better than its peers.

Having posted positive net and operating income in its most recent quarter, Aphria is not losing money—for now. That would seem to exempt it from the “money sink” thesis that’s driving other marijuana stocks lower.

However, as you’re about to see, there are headwinds on the horizon that could cause Aphria shareholders significant pain. The first relates to what’s happening with the company’s peers.

Guilt by association

It’s no secret that most marijuana companies have been dropping the ball spectacularly this year. After receiving a massive sales jump from legalization, they’ve still failed to draw closer to profitability, with **Canopy** in particular having recently posted its [biggest loss ever](#).

Stocks have a tendency to move together with their sector, so it’s no surprise that Aphria is experiencing some guilt by association. However, there are other problems facing the company that could have real, fundamental consequences in the not-too-distant future.

The goodwill problem

One big problem facing Aphria right now is its mountain of goodwill. Goodwill is usually defined as the acquisition premium paid for a company above that company’s book value.

It's listed on the acquiring company's balance sheet as an asset. However, accounting rules require that goodwill be tested to ensure that it's actually generating value for the company.

If an acquisition turns out to be a loser, then the company will take an impairment charge and have to write down some of its goodwill.

According to MarketWatch, Aphria has about [\\$700 million worth of goodwill on its books](#). Some of that goodwill comes from the acquisitions of ABP and CC Pharma, which are producing real revenue for the company.

That portion of the goodwill should be OK. However, some of the acquisitions the company made aren't generating results, and the goodwill pertaining to those acquisitions may have to be written down. In that event, Aphria will see a reduction in its book value.

Regulatory worries

A final factor that could be dragging Aphria lower is regulatory worries. By now, most marijuana investors are familiar with the **CannTrust** regulatory scandal, in which a medium-sized marijuana grower was caught growing weed in unlicensed rooms.

So far, only CannTrust itself has been affected. However, it's possible that concerns over the scandal will increase regulators' scrutiny toward all marijuana stocks, which could lead to investigations, whistleblower complaints, and other headaches.

It's not clear that, in Aphria's case, whether this will ever come to pass. However, it's certainly possible, and investors may be pre-emptively reacting to the possibility by selling their shares.

Foolish takeaway

Aphria has recently become one of the most profitable and fastest-growing marijuana companies. However, investors aren't reacting to this development in the way you'd expect. Sending the stock about 10% lower last week, they clearly aren't buying it.

Guilt by association is the most likely culprit, with risks pertaining to goodwill and regulators being other possible contributors.

CATEGORY

1. Cannabis Stocks
2. Investing

POST TAG

1. Cannabis

PARTNER-FEEDS

1. Business Insider

2. Msn
3. Newscred
4. Sharewise
5. Yahoo CA

Category

1. Cannabis Stocks
2. Investing

Tags

1. Cannabis

Date

2025/08/21

Date Created

2019/10/02

Author

andrewbutton

default watermark

default watermark