Is Aphria (TSX:APHA) Still the Best Marijuana Stock?

Description

Aphria Inc (TSX:APHA)(NYSE:APHA) has been one of the best-performing marijuana stocks of 2019, falling only 13% compared to 24% for marijuana stocks as a whole. Its relative success was mainly thanks to a surprise Q4 earnings release, that showed $128 million in revenue and $15.8 million in earnings.

The company's cannabis operations were solidly profitable in the quarter, whereas other marijuana producers like **Canopy** and **Aurora** lost money in the same period.

On October 15, Aphria will be releasing a new quarterly report, this one for the period ended August 31. Analysts are widely expecting a year-over-year decline in earnings coupled with higher revenue, with a $0.02 loss per share being the consensus.

Depending on whether that comes to pass, the stock's run of outperforming its peers may come to an end. To understand why that is, we need to look at how the stock managed to outperform its peers in the first place.

The first large marijuana stock to become truly profitable

As stated earlier, Aphria out-performed most of its cannabis peers in 2019 thanks to its Q4 report, which contained solid figures across the board. These included 969% year-over-year revenue growth, 158% sequential growth in recreational sales, $15.8 million in net income, and $1.9 million in EBITDA from cannabis operations. This is in contrast to other marijuana stocks, whose revenue growth was slower and whose profitability was less clear.

Although Canopy and Aurora have posted positive net income before, they never managed to produce positive earnings from cannabis operations. Aphria was the first of the three to hit this milestone, which wasn't enough to make the stock a winner, but did prevent it from falling as dramatically as its peers.

How it could all be derailed

If analysts' predictions for Aphria's Q1 earnings release come to pass, then the stock's favoured position in its industry will likely come to an end. Although the company's incredible revenue growth is expected to continue, with $103 million being the consensus, a $.02 loss per share would be a big decline from the previous quarter.

Another big problem for Aphria is the possibility of having to face further impairment charges.

Aphria has about $700 million worth of goodwill on its books, much of which stems from non-revenue-generating acquisitions. Although any goodwill stemming from ABP and CC Pharma will likely hold up, other portions of the company's goodwill may have to be written down. The company has faced impairment charges before; for example, in Q3, it had to write down $50 million on its LATAM assets.

This was a big reason why the company lost $108 million that quarter. If the company has to write down a further $150 million related to other acquisitions, as some are predicting, then the company may lose even more money in Q1 than analysts are expecting.

Foolish takeaway

Aphria has long been one of the more profitable marijuana companies, with several quarters of both net and operating profits. This is one factor that makes the company stand out compared to its peers. However, the company has also acquired something of a tarnished reputation thanks to a series of questionable acquisitions.

If those acquisitions hit the company with further impairment charges, then the stock may tumble even with the incredible revenue growth we're seeing. Add a major supply contract that was to provide millions in revenue each year, and you've got a recipe for trouble.

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