



Is Aphria's (TSX:APHA) Stock a Buy or Sell Before Earnings on Tuesday?

Description

Cannabis grower and retail giant **Aphria** (TSX:APHA)(NYSE:APHA) is set to release its first quarterly results for fiscal year 2020 on October 15 to an investor community that has been startled by a gloomy growth outlook from **HEXO** that triggered massive losses on industry stocks on Thursday. Could this earnings report alleviate pot market growth fears or worsen them?

Aphria's upcoming quarterly earnings results will cover the three months period to August 31, 2019. Analysts expect the company to report about \$134 million in revenue, which would be a sequential quarter-over-quarter growth of 4% over three months. Net earnings could decline from a \$15.7 million profit reported in a previous quarter to breakeven.

The company has guided for a spectacular sales performance for this fiscal year to somewhere between \$650 million and \$700 million, and if revenue comes anywhere near what analysts predict, the company has a good chance of achieving the annual guidance, which requires sales to average around \$165.2 million per quarter.

Although HEXO's [revelation of high market uncertainty](#) in the Canadian marijuana space dampens investor enthusiasm, Aphria expects to generate a significant amount of its revenue from its distribution business in Europe mainly from its new subsidiary CC Pharma, hence there are some significant diversification benefits to be enjoyed, even though distribution is a low-margin business.

That said, the company isn't immune to what HEXO management has described, and APHA's stock price fell 14% on Thursday, as investor confidence was shaken by the gloomy industry outlook.

Could sales growth stall?

The recent cancellation of a five-year supply deal with **Aleafia** [could be a troubling issue](#). Not only was the agreement the biggest deal of its kind for the firm, the customer alleged a failure to meet supply obligations, and this could imply the company lacked the operational capacity to produce and deliver cannabis on time.

If this is the case, then investors shouldn't expect any massive revenue growth surprises from this pot grower in the near term, maybe not until the company receives production licences for its Diamond facility and the related Extraction Centre of Excellence, which could significantly boost marijuana extracts production.

However, the 4% sequential growth depicted in analyst estimates isn't too high a hurdle for this growing marijuana producer, as it received full licences for its flagship production facility earlier this year. It's very likely that management can release far better results on Tuesday.

Buy or sell before earnings?

APHA could be an interesting earnings play if one intends to trade the cannabis stock. Its share price was beaten down on Thursday after the HEXO scare, but the valuation could quickly recover if there's any encouraging signs of progress. The 4% required sequential revenue growth rate is a low hurdle to achieve for a pot producer today, and this can be easily surpassed.

I naturally prefer long-term investments, but this one could be an interesting short-term buy-the-dip speculative trade if one is willing to take the risk.

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

2025/08/25

Date Created

2019/10/12

Author
brianparadza

default watermark

default watermark