Cannabis Investors: 5 Important Takeaways From Aphria's (TSX:APHA) Earnings

Description

Aphria Inc (TSX:APHA)(NYSE:APHA) reported earnings yesterday, kicking off the earnings season for the major cannabis companies. There's been much anticipation surrounding these quarterly results as new developments continue to come to light.

Just recently, statistics showed that the price of recreational cannabis came down for the first time, driven by heavy competition from the black market.

The slower than expected rollout by many provincial governments has also played a role in the underwhelming performance of the industry thus far.

These are, however, normal growing pains for the industry, and we're now getting a better glimpse into company's reported earnings. So, without further ado, below are my five main takeaways from Aphria's earnings.

Total sales

Despite having another quarter of recreational cannabis under its belt, the company reported revenue that was 2% below its previous quarter this year — and below earning expectations.

Total sales came to roughly $126 million on nearly 6,000 kilograms of cannabis equivalents sold. Despite the cash coming in below last month, the volume of products sold was an increase from the previous quarter by roughly 7%.

Despite lower than expected sales, however, the company still managed to turn a profit.

Profitability

Aphria managed to turn a nice profit for the second straight quarter, reporting positive adjusted earnings before interest, taxes, depreciation and amortization (EBITDA) for the first time. Its growth in adjusted EBITDA was a direct result of decreasing costs.

The decrease in costs came mainly from a large reduction in selling, general and administration costs because of non-recurring financing costs in the last quarter. Its all-in cost of grams sold for the quarter was $2.52.

Balance sheet strength

With many of the cannabis companies spending tons of money to build up their capacity, and having to raise money to do so, a strong balance sheet has become imperative.

Looking at the earnings report, it seems Aphria ended the quarter in a strong financial position. At the end of the quarter, it had more than $460 million in liquidity, which will help Aphria to fund continued expansion efforts wherever the biggest opportunities arise.

New updates

Aphria has launched a number of social initiatives in the communities in which it operates in order to expand the education of customers and patients. While these programs will give the company a positive look, it also stands to create new customers by informing people of the safe and effective uses of cannabis both now, and for products coming to market in the future.

At end of the quarter, Health Canada advised the company that it was in the process of expediting Aphria’s diamond license.

The Aphria One facility is also fully operational now, with 600,000 plants in full crop rotation. Upon completion and licensing of all its facilities, Aphria will have approximately 255,000 kilograms of annual capacity.

What to expect from the rest of the industry?

The decline in revenue seems like it could be troubling, but the market reacted positively to the earnings, showing that investors are more concerned with profitability at the moment.

The relatively flat revenue could just be Aphria specific, but investors should pay close attention to the growth in revenue as other companies report. A relatively flat quarter for profit across the industry could highlight some of the problems it faces in competing against the black market and the far cheaper prices.

Aphria’s reaffirming of its fiscal 2020 guidance is a positive sign for the sector; the company thinks the market will stay strong and will be able to hit on its projections, at least for the next nine months. It expects to do revenue of $650 to $700 million, and adjusted EBITDA of $88 to $95 million.

Although the earnings were solid overall, it does reaffirm my suspicion that many investors’ number one issue is seeing profitability across the sector.

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