Why Is Aphria (TSX:APHA) Stock Falling Hard Today?

Description

Aphria Inc. (TSX:APHA)(NYSE:APHA) stock is down 8.5% today, as investors probably continue to pour over the company's second=quarter results that were released yesterday.

At first glance, the quarterly result seemed to have offered cannabis stocks and cannabis investors a ray of sunshine and a ray of hope from the company's results, which showed another quarter of positive earnings.

So why is Aphria stock price giving back some of the gains it made yesterday and tumbling today? The answer lies in the details of the company's results, which at first glance look very positive. When we look deeper we can spot areas of concern, which is what investors are focusing on today.

Sequential revenue declines

Revenue in the quarter increased 849% versus last year, but declined 2% sequentially. This is a dramatic slowing of revenue and is a cause for concern. Although the company experienced a fire at its British Columbia facility, which explains this somewhat, it's still a dramatic slowing.

Non-operating income drives Aphria to net profit

Driving down further on the income statement, we can see that adjusted EBITDA of $1 million is climbing higher as "cost containment strategies were employed across the business. While net income was positive in the quarter, if we take out non-operating income, the net earnings are wiped out and turn into a net loss.

Strategically, Aphria has emphasized that they remain focused on profitability and that they ultimately see themselves as a consumer packaged goods company.

Currently, with a 12% market share that was driven by brand awareness and the strength of Aphria's Broken Coast brand, Aphria will continue to leverage its research in order to continue to grow in

Canada and more.

Entering the significant and expanding German medical cannabis market

The German medical cannabis market is growing — and growing rapidly. During the first half of 2019, Germany imported an estimated almost 2,500 kilograms of medical cannabis for pharmacy dispensing, which is almost as much as imports in the full year of 2018.

Earlier this month, Aphria's wholly-owned subsidiary entered in a four-year, non-exclusive, distribution agreement to supply monthly shipments of medical cannabis for its pharmacies. First cannabis imports into Germany are expected in late 2020.

Taking it slow in the U.S.

With too much uncertainty with regard to ultimate legalization in the U.S., Aphria will continue to take it slowly there. Management continues to have discussions with potential partners in order to be aware of strategic opportunities and positioned to enter whenever the U.S. market is conducive to it.

They certainly aren't jumping in too soon, as there are many opportunities now in Canada and Germany for example. Focusing on these markets is the right move; wasting too many resources on the U.S. when there is still so much uncertainty is too risky.

Foolish bottom line

Looking ahead, management is still confident in their net revenue guidance of $650 million to $700 million and EBITDA of $88 to $95 million in fiscal 2020. This compares to net revenue of $237 million in fiscal 2019, and represents an approximately 185% increase.

Aphria is backed by a strong balance sheet, Aphria's stock price has come down to more reasonable valuations, and the strategy is moving forward effectively.

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