Can Aphria (TSX:APHA) Stock Double Your Money?

Description

We have looked at the carnage in the cannabis sector over the last year. It started with investor concerns over high stock valuations. Then came the regulatory issues and the vaping scandal.

Now, serious questions have been raised over the growth estimates for almost every stock in this space. Pot heavyweight **Aurora Cannabis** reported lacklustre quarterly results last month. **Hexo** not only released preliminary quarterly results below estimates, but it also went a step further and withdrew the guidance for fiscal 2020 (ending in July).

Marijuana producers are still losing sales to the illegal pot market in Canada due to high product prices. This is not only driving sales lower but has also resulted in rising inventory levels for firms.

Cannabis stocks created massive wealth heading into October 2018 but have burnt significant value ever since. Currently, the uncertainties persist, which means that near-term volatility will also persist. But what about longer term? Do current low prices present a buying opportunity? Let's find out if Aphria has enough upside potential to double your wealth.

Aphria is trading 70% below the 52-week high

Aphria (TSX:APHA)(NYSE:APHA) stock has mirrored the broader cannabis index returns since its IPO back in October 2016. Its shares rose from $3.8 after the IPO to close at $21 in September 2018, a phenomenal rise of 450%.

However, due to the above-mentioned reasons, the stock is currently trading 68% below its all-time high. In the last week, Aphria fell 13% after it lost a supply agreement from its top customer, **Aleafia Health.** According to the agreement, APHA had a five-year deal with Aleafia's subsidiary, Emblem Corp.

Aphria had to deliver over 175,000 kgs of cannabis products to Emblem but Aleafia claims there has been a default in meeting this obligation. Now, if the deal is shelved, there could be serious revisions to Aphria's valuation and sales.

The recent quarterly results were critical

Aphria reported its first quarter of fiscal 2020 (ended in August) on October 15. Analysts expect the company to grow sales by a significant 1,214% to $133.5 million in the quarter. Its earnings were estimated to be breakeven, compared to $0.07 in the prior-year period.

Looking at the results of Aurora and Hexo it looked unlikely for Aphria to beat these bullish estimates. But the company managed to pull off a miracle. While revenue estimates were slightly below estimates, Aphria crushed earnings forecasts in the August quarter.

Analysts expect the company's sales to rise by 188% to $682 million in 2020 and by 40.2% to $955.72 million in 2021. Comparatively, its earnings are estimated to grow by a robust 157% in 2020 and this is expected to accelerate to 700% in 2021. Aphria has forecast sales of $645 million in 2020 with an adjusted EBITDA of $86.8 million.

Aphria is one of the few cannabis companies that is posting a non-GAAP profit. However, the recent termination of the Aleafia deal, coupled with oversupply and rising inventory levels might impact profit margins heading into 2020.

The stock is trading at a forward price-to-earnings multiple of 19.4 times, which looks like an absolute bargain looking at its earnings estimates.

Aphria has the potential to create massive wealth as it had done between its IPO and September 2018. But the growing uncertainties in this space will make cannabis stocks volatile at least in the short term.

Analysts tracking Aphria have a 12-month average target price of $14.94, which is 141% above the current price. The stock has the potential to more than double over the long term as the total addressable market continues to expand and the demand-supply gap stabilizes.

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