



## Is Aphria (TSX:APHA) Stock a Buy After 2 Consecutive Profitable Quarters?

### Description

**Aphria** (TSX:APHA)(NYSE:APHA) just knocked it out of the park again. Yesterday, the company released its Q1 earnings, which showed an 848% year-over-year revenue-growth rate along with positive net and operating income. This isn't the first time a large cannabis producer posted huge growth *and* profits in the same quarter. However, it's the first time that any of the "big three" posted two profitable quarters in a row.

The results we saw yesterday are consistent with what I've said in the past, namely that [Aphria has been the best cannabis stock](#) this year, owing to its superior track record of profitability. However, there are some risk factors looming on the horizon that threaten to derail the progress we've seen. I'll get into those in a minute. First, though, let's check out those juicy Q1 results.

### Q1 2020 results

Aphria's Q1 results outperformed expectations on almost every metric. Specifically, the company had \$16 million in net income and \$3.9 million in operating income — analysts were generally expecting losses. On a slightly less-encouraging note, the company's revenue was down about 2% sequentially, thanks to a decline in distribution. However, the dip in revenue was expected in advance, and revenue growth year over year was quite solid. Additionally, adult-use sales increased 8% from the prior quarter.

### What it means

Aphria's Q1 earnings give us the first clear signal that, in the post-legalization era, marijuana stocks may be able to move toward consistent profits. Although many pot stocks have had the odd profitable quarter here or there, this is the first time that one of the "big three" posted two in a row. Additionally, Aphria's positive operating income shows that the company can rake in the big bucks from its core selling and distribution operations. This is a milestone that other licensed producers have had a hard time reaching.

## How it could be (temporarily) derailed

While Aphria's two consecutive profitable quarters is a huge milestone, it could potentially be derailed in the next quarter.

Aphria presently has just under \$700 million worth of goodwill on its books, and some are saying that a good chunk of that could be written down in impairment charges. Goodwill is the acquisition premium paid for a company. If the acquired company is generating value for the acquirer, it's allowed to be listed on the balance sheet as an asset, but if an acquisition turns out to be worthless, it has to be written down.

In the past, Aphria was accused of having paid extremely large amounts of money for companies that did not earn any revenue. While there's no doubt that some of Aphria's acquisitions (ABP and CC Pharma) are generating value for the company, others may have been less worthwhile. Consequently, some analysts are predicting that Aphria may have to write down a large chunk of its goodwill. If that comes to pass, then there will be large mark-to-market losses on upcoming income statements. That could derail the company's profitability, at least in the short run.

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