



## Cannabis Investors: Aphria's (TSX:APHA) Latest Licence Win Opens Up New Growth Opportunities

### Description

News on Monday revealed that marijuana producer **Aphria** (TSX:APHA)(NYSE:APHA) has finally obtained its long-awaited grow licences from Health Canada at its biggest facility in a development that allows the firm to double its annual production capacity to 255,000 kilograms of pot next year.

The stock price didn't respond positively to the announcement. The share price actually declined during the day.

Probably, the market had already priced this news in a rally when management announced during the most recent earnings release in mid-October that the regulator had written to notify the company of its intention to expedite the licensing of Aphria Diamond nearly 17 long months after an application was lodged.

That said, the new grow licence is a critical piece in the cannabis firm's refined growth strategy. It will allow the company to leverage its new acquisition to renegotiate terms with its lost largest customer and to grow its revenue base.

Let me explain.

### Look to Germany's market leverage

The company is banking on new subsidiary CC Pharma to contribute more than half its revenue target for fiscal year 2020, and this Germany-based pharmaceuticals distributor is currently buying massive amounts of cannabis from competitors for distribution in the fast-growing European market.

The mother company is, however, undergoing E.U. GMP certification processes (albeit [after an earlier questionable, misguided attempt](#)). The new licences will allow its Canada-grown product to be exported to this key European medical marijuana market through CC Pharma, which has access to over 13,000 pharmacies in the target market.

With a new grow licence, and after an E.U. GMP licensing receipt, the company could easily channel product from its older facility towards export to capture better margins while serving the local Canadian market with product from the newly licensed Diamond facility.

And the Germans pay very good prices for pot.

## More negotiating power with biggest single customer

The latest licences couldn't have come at a better time.

We know that the company [lost its biggest customer](#) last month, but there was some little hope that management could try to negotiate with **Aleafia Health**, as the cancelled multi-year supply agreement allowed for 30 days of renegotiation after the fallout.

I suspect that the impasse emanated from the company's failure to ramp up production, as its largest facility was yet to be licensed, and the large customer's faith grew thin, as months went by without any visibility to a potential licensing date.

Now that the company has finally received the critical licences before the 30 days are over, there could be some hope that the deal could be salvaged.

## Key asset de-risked

The new licence has significantly de-risked a key investment.

Remember the Extraction Center of Excellence? This state-of-the-art cannabis extracts facility is located inside the just-licensed facility, but it could not have been used if the Diamond facility was unlicensed, and the company was already trying to invest in small extraction facilities at its other facility ... just in case.

Investors and management should be relieved now that the licensing risk has been eliminated and the multi-million-dollar extraction investment can be legally utilized to generate returns after this key event.

## Investor takeaway

The market may have ignored the licensing news, probably as a result of the current market oversupply sentiment in the Canadian local pot market. However, these concerns may go away as new retail outlets come online next year, but I expect Aphria to benefit significantly from the new production licence, even if local Canadian market demand growth may lag analyst expectations.

The pot producer looks to have some good things growing in its business portfolio, yet its stock remains modestly valued relative to peers. The stock looks like a good long-term buy now.

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