Why Aphria (TSX:APHA) Is Canada's Top Pot Stock to Buy Today

Description

Marijuana stocks continue to take a hammering, as the Canadian regulator cracks down, and many companies fail to deliver value as promised. Leading cultivator **Canopy Growth** has lost a whopping 47% since the start of 2019, while smaller cannabis stocks have suffered even larger losses. One cultivator that appears well positioned to not only survive the latest trials and tribulations besetting the burgeoning global legal cannabis industry but will emerge with greater market share is **Aphria** (TSX:APHA)(NYSE:APHA).

Improved results

The company was roughly handled by the market after a scathing research report was released toward the end of 2018, which essentially implied that the company was fraudulent. This sparked a rout of Aphria's stock, which in turn saw significant management changes at the company, as it battled to regain investor confidence.

Since then Aphria has reported some solid results, revitalizing its stock. It's down by 28% for the year to date, which is less than half of many other cannabis stocks. There is every indication that Aphria will rally strongly once the legal marijuana industry starts to consolidate and the fallout from earlier excesses comes to an end.

For its fiscal first quarter 2019, Aphria reported that revenue from cannabis products had almost tripled compared to the equivalent period in 2018 to $35 million and total revenue had grown to $126 million. This saw gross operating profit more than triple to $45 million, while adjusted EBITDA was $1.3 million compared to a $399,000 loss a year earlier. The strength of Aphria's performance saw it report a net profit of $16 million, which was the second consecutive quarterly profit in an industry where many participants are operating at a loss.

Despite the fanfare surrounding Canopy and its alliance with liquor giant **Constellation Brands**, it continues to be hammered by the market because of its large losses. For the fiscal second quarter 2019, Canopy reported a massive $375 million loss, and that came on the back of a whopping $1.3 billion fiscal first-quarter loss.

Aphria's key strength is its global distribution network, which reduces its dependence on an increasingly saturated Canadian legal marijuana market. There are fears that Canada's market is over supplied, and that the situation will become worse, as domestic cultivation continues to grow. Even the legalization of cannabis derivatives and edibles won't be enough to reduce the growing supply glut.

Aphria has established a strategic global platform, including a significant presence in Germany, which is considered to be one of the most lucrative medical marijuana markets globally. It is also focused on expanding its cultivating capacity forecasting that it can produce up to 255,000 kilograms of cannabis annually at its Canadian facilities alone once the Aphria Diamond operation is approved by Health Canada. That endows Aphria with considerable flexibility and the capability to meet growing global demand for legal cannabis products.

The cultivator also finished the fiscal second quarter with a solid balance sheet, holding $449 million in cash and a manageable $461 million of debt. This will allow Aphria to make accretive acquisitions, thereby boosting its market share, once the industry starts to rationalize.

Foolish takeaway

Aphria has emerged as a market leader among cannabis stocks with it being one of the few Canadian legal marijuana cultivators to attain profitability. The company is poised to continue growing as sales rise, and it taps into what is thought will be a $150 billion global legal cannabis market by 2025. For the reasons discussed, Aphria is shaping up as the best play on the growing global demand for legal marijuana.

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