



What's Next for Aphria (TSX:APHA) Stock After a 70% Decline Since September 2018?

Description

Shares of **Aphria** (TSX:APHA) are trading at \$6.2 at writing. The stock is down just 6% this month, while other top cannabis stocks have lost considerable value in November 2019. **Aurora Cannabis**, **Canopy Growth**, and **Cronos** have lost 24%, 8%, 13%, respectively, since the start of November.

Aphria shares were driven lower by the lackluster results of Aurora, Canopy Growth and Cronos. The lower than estimated revenue figures for cannabis firms are raising serious concerns over the domestic demand for marijuana products.

Most pot companies have attributed the lower demand to the slow roll-out of retail stores across major Canadian provinces coupled with the competition arising from illegal sales.

These problems are likely to persist in the near term resulting in at least one more quarter of lower than expected sales for marijuana companies.

Aphria Diamond gets license from Health Canada for its greenhouse facility

The total addressable market continues to expand for pot stocks. This has meant companies continue to invest heavily in capital expenditure to increase production capacities.

Earlier this month, Aphria announced it received a cultivation license from Health Canada for Aphria Diamond.

Aphria Diamond is the company's cannabis greenhouse facility with a production space of 1.3 million square feet and an annual growing capacity of 140,000 kilograms, lifting Aphria's total cultivation space to 2.4 million square feet with a total annualized production capacity of 255,000 kilograms.

Aphria's interim CEO Irwin D. Simon stated, "We are extremely pleased to receive the licence for our

long-awaited Aphria Diamond facility, which more than doubles our Canadian production capacity. Reaching industry-leading production levels coinciding with the expansion into new categories and new opportunities for cannabis in Canada and around the world is a transformative moment for Aphria Inc.”

Aphria Diamond is a 51%-owned subsidiary of Aphria Inc. The latter has partnered with Double Diamond, which has expertise in the commercial greenhouse industry.

According to the company’s press release, Aphria Diamond features industrial-scale automation technology for cultivation functions such as harvesting, trimming and drying.

Aphria is optimistic about this partnership, as it equips the company with the ability to cultivate high-quality cannabis with an improvement in operational efficiency.

Is Aphria stock a good bet for 2020?

The sell-off in the marijuana space continues to impact investors. Industry analysts are split about the future performance of pot stocks. While a few believe the worst to be over, analysts remain cautious heading into 2020.

While cannabis companies, including Aphria, are increasing production capacities at a fast pace, is there enough demand to sustain this supply? The tepid demand in the recreational cannabis space has resulted in [huge inventory pileups for companies](#).

In the fiscal first quarter of 2020 (ended in August), Aphria’s inventory was valued at \$112.98 million, up from \$91.52 million in the May quarter. The company’s inventory accounts for 19% of the estimated 2020 sales. This figure for Aphria is lower compared to the inventory levels of peers.

While Aphria stock is trading 70% below its September 2018 high, it is one of the few pot companies to report an adjusted profit. Analysts expect its earnings to improve from -\$0.07 in fiscal 2019 to \$0.05 in 2020 and \$0.25 in 2025.

This means Aphria stock is trading at a forward price to earnings ratio of 24.8, an absolute steal considering its revenue growth of 149% in 2020 and 36% in 2021.

Analysts tracking Aphria stock remain optimistic and have a 12-month price target of \$12.5, which is 102% above the current trading price.

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