



Why the Aphria (APHA) Stock Price Rose 7.8% in December

Description

Generally speaking, most cannabis stocks and cannabis investors had their heads handed to them in December. **Aphria Inc.** (TSX:APHA)(NYSE:APHA), by contrast, was up 7.8%.

Aphria stock price movements leave investors shellshocked

I would like to start off by recognizing that cannabis investors are pretty much reeling from [the fallout from the bursting of the cannabis bubble](#). While Aphria stock price rose in December, it is down 72% from January 2018, down 25% since January 2019 and down 12.5% year to date.

So there's nothing here to really get excited about, except for the fact that the bubble has burst and we can focus on fundamentals and enjoy the opportunity to invest in the cannabis business at reasonable valuations.

Valuation levels on Aphria stock fall to more reasonable levels

While investors are undoubtedly shellshocked, they are still undoubtedly aware of the massive potential of the cannabis industry. What has changed is that we have finally realized that the time frame to get to this massive potential is farther out than what the market was pricing in in the euphoric days of legalization.

That has faded now, and we are left with no other choice but to look at cannabis stocks as we look at all stocks, paying attention to valuation levels, balance sheets, earnings, and visibility.

In this regard, Aphria looks okay, but not great. Valuation levels are reasonable (Aphria stock is trading at 25 times 2021 consensus earnings), and with this, investors have more time to wait for this new market to develop and unfold.

A strong balance sheet, a conservative approach — and the bottom line

Strategically, Aphria has emphasized that they remain focused on profitability and that they ultimately see themselves as a consumer packaged-goods company.

Currently, with a 12% market share driven by brand awareness and the strength of Aphria's Broken Coast brand, Aphria will continue to leverage its research in order to continue to grow in Canada.

Aphria secures financing deal with major Canadian chartered bank

In December, Aphria's subsidiary, Aphria Diamond, announced that they had secured an \$80 million secured credit facility. This is backed by Aphria's strong balance sheet (\$464,000 in cash), and works to further to strengthen its balance sheet in a non-dilutive way.

With this, Aphria can pursue its growth more effectively. The Canadian medical marijuana market and the German market, where Aphria's wholly-owned subsidiary has entered in a four-year, non-exclusive, distribution agreement to supply monthly shipments of medical cannabis for its pharmacies, hold big potential for Aphria.

Foolish bottom line

While uncertainty is still rampant in the cannabis industry, stocks like Aphria are at more reasonable valuation levels, which means that investors do not have the odds stacked against them as they did just a few months ago, [when valuations were never going to be justified and the stocks had only one direction to ultimately go – down](#).

Finally, I would like to remind foolish investors of our belief in holding great businesses for the long term. While this belief remains intact, we are also aware that sometimes, short-term stock price movements create opportunities to create wealth.

Blending this long-term focus with a keen eye for short-term stock mispricings, we can use both strategies in harmony, and our quest for financial freedom can be fulfilled.

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