



Will Aphria's (TSX:APHA) Stock Tank if Q2 Earnings Miss?

Description

Aphria (TSX:APHA)(NYSE:APHA) was one of the better-performing cannabis stocks of 2019. Although its stock declined in value for the year, it fell less than most of its peers thanks to [two consecutive quarters of positive net income](#).

Aphria's positive earnings results in 2019 were a surprise to most investors. Cannabis stocks had broadly been expected to lose money, and few expected Aphria to be the first to consistently turn profits. However, driven by the strength of its recreational sales and European distribution business, it did.

This month, we'll get to see whether the current favourite pot stock can keep up the momentum. On January 14, the company will be releasing its earnings for the fiscal quarter ended November 2019. These earnings will show whether Aphria can keep up growth in recreational sales a year past legalization, and whether its European distribution business can continue to drive profits. If these earnings are good, Aphria shareholders may be in for a treat. If not, the stock will likely suffer the fate of its industry peers.

Why Aphria outperformed the cannabis sector last year

The main reason why Aphria outperformed other cannabis stocks last year is because it was more profitable than the rest. It notably posted two consecutive quarters of positive net income and beat earnings estimates for three out of the last four quarters.

In the cannabis industry, even a single profitable quarter is rare, so it was big news when Aphria revealed that it had achieved two in a row. Not only that, but the company's revenue growth was among the best in the cannabis sector last year, with [net revenue up 969% in Q4](#).

Why an earnings miss could send it tanking

The reason why an earnings miss could send Aphria tanking should be fairly obvious: it's because of

superior earnings results that Aphria outperformed in the first place.

Unlike **Canopy Growth**, which in 2018 went on a huge rally largely thanks to hype surrounding its **Constellation Brands** deal, Aphria beat its competitors because of fundamentals. It has never been the most talked-about or “buzzy” marijuana stock, and therefore can’t count on “excitement” to lift its shares.

Even after posting its two consecutive profitable quarters last year, APHA didn’t rise; it merely fell less than other marijuana stocks. If Q2 disappoints, therefore, we can expect its stock price to start falling again.

Foolish takeaway

Last year, Aphria surprised the markets with two impressive quarters, which showed not only positive earnings but also incredible growth. In a few days, we’ll get to see whether the company can pull it off again.

The markets seem to be pricing the stock in anticipation of “so-so” results, as it is still down over 52 weeks (although it is up some 22% since its \$5.03 close on November 18). My advice for those considering buying APHA is to wait for the 14th and see what happens.

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