Why Did Aphria (TSX:APHA) Stock Fall 8.6% Yesterday?

Description

Shares of Canada-based **Aphria** (TSX:APHA)(NYSE:APHA) fell 8.6% on January 14, 2020, to close trading at $6.49. The company announced its fiscal second quarter of 2020 (ended in November) results yesterday and reported sales $120.6 million with adjusted earnings of -$0.03.

Comparatively, in the prior-year quarter, Aphria reported revenue of $21.66 million and earnings of $0.22. Analysts tracking Aphria expected the firm to post sales of $130.32 million with earnings of -$0.01 in the second quarter. While the revenue miss was not too damaging, investors were spooked after Aphria drastically reduced its revenue forecast for fiscal 2020.

The company forecast sales between $575 million and $625 million in 2020 — down from the earlier estimate of sales between $650 million and $700 million. Aphria has forecast EBITDA between $35 million and $42 million for the current fiscal year.

The company's management lowered its forecast due to the slow rollout of retail stores in Canada's largest province — Ontario. There are over 40 retail store licences that are pending approval in Ontario that will impact the top line for Aphria and peers.

Aphria is also concerned over the ban of vaping products in certain provinces that will impact sales of cannabis derivative products in the country. Its Aphria Diamond facility received a cultivation licence on November 4 last year, which was later than expected.

This delay will also have a negative impact on company sales in 2020, as Aphria Diamond the company's largest cultivation facility spanning 1.3 million square feet with a production capacity of 140,000 kg per year. The first sales from this facility are expected in the fourth quarter of fiscal 2020.

Due to this delay, APHA had to supplement a portion of the supply shortage by purchasing wholesale cannabis from other licensed producers. The cost of these purchases was expectedly higher than the cost of growing and harvesting cannabis.

Will Aphria stock make a comeback in 2020?

As cannabis is a highly regulated industry, investors can expect a delay in the roll-out of retail stores in major Canadian provinces. However, Ontario, Canada's largest retail market for adult-use cannabis, announced changes in the licensing processes, which will increase the number of new retail locations significantly by the end of 2022.

Alberta and British Columbia also remain committed to increasing retail store counts in the next two years, while the launch of Cannabis 2.0 products might be a key driver for the top line of major cannabis companies.

While investors were left unimpressed, Aphria CEO Irwin Simon stated, "We are very pleased with our strong growth and execution in Canada demonstrated by our increase in adult-use cannabis revenue and positive adjusted EBITDA as a result of our compelling brands and market positioning."

Aphria and other cannabis companies will continue to be impacted by structural issues in the near term. The competition from illegal sales will drive demand lower, which will result in high inventory levels. This, in turn, will lower profit margins and impact the bottom line.

Despite these challenges, Aphria is one of the few pot companies that is reporting a positive EBITDA. Its stock price has declined by a massive 55% since April 2019, which indicates that the stock is now trading at a cheaper valuation, making it a solid bet among marijuana stocks.

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