



Revealed: This Pot Stock Could Soon Pay a Dividend

Description

One of the biggest stories in Canadian business over the latter half of 2019 was the massive implosion of Canada's marijuana sector. Leading pot stocks fell as much as 50-75%.

A number of factors [contributed to the fall](#), but mostly it came down to sentiment. Investors went from being incredibly bullish on the future of legal marijuana in Canada to realizing there was way too much supply in the system, all within the span of a few months. We're now in a period of reckoning, which will undoubtedly end with some of the weaker producers going bankrupt.

Amid all this carnage could be an interesting buying opportunity. The legal pot market should continue to grow, as more kinks get ironed out of the system and as marijuana [edibles](#) become more popular. Many smokers still have their dealer on speed dial — something that should begin to change as more stores open with more consistent supply. And some of the top marijuana producers are finally starting to get serious about profitability, which is always a good thing for investors.

One pot stock is even considering a pretty major step — something that will immediately make it leap onto certain investors' radars.

Dividend-paying marijuana?

Aphria (TSX:APHA)(NYSE:APHA) recently released its quarterly numbers, and the stock sold off some 8% on the news.

Investors were disappointed in top-line results. Revenue was expected to be \$130 million, but actual numbers came up short, with the company only posting \$121 million in sales. The company also cut its full-year revenue forecast, slashing sales estimates from \$650 to \$700 million to a range of \$575 to \$625 million.

It wasn't all bad news, however. The company reported a tiny \$1.9 million adjusted EBITDA profit in its most recent quarter and projected the adjusted EBITDA would be between \$35 and \$42 million for the year. In a world filled with marijuana companies that will still struggle for any sort of profitability in 2020,

Aphria stands as a rare beacon of strength.

Aphria also has a strong balance sheet with nearly \$400 million in cash. It's well positioned to gobble up any prime assets from any struggling marijuana producers. And with serious profitability just around the corner, the company is even looking at sending money back to shareholders.

During the conference call discussing this quarter's earnings with analysts, Aphria's CFO told investors the company was strongly considering paying the sector's first consistent dividend.

As part of his remarks, CFO Carl Merton told investors the company looks forward to "in the future being in the position to provide an annual return to our shareholders through dividends."

Merton and the rest of Aphria's management team didn't mention a specific date, but I think the company could institute a regular dividend by the end of 2020, depending on whether it can deliver on its profitability goals.

Paying a regular dividend could give Aphria one major advantage over its peers. There are hundreds of Canadian mutual funds and exchange-traded funds that insist on only investing in stocks that pay a dividend. These funds are likely to have big interest in adding a fast-growing marijuana producer to their portfolios. They're just waiting for such a company to become profitable enough a regular dividend is a possibility.

The bottom line

Although Aphria shares are reeling after cutting guidance, this dividend chatter is good news. It shows management is confident in the future and that the company is serious about profitability. The best returns going forward will come from pot producers who can show they can make consistent profits. Aphria isn't quite there yet, but I like the direction it's heading.

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