Why Did Aphria (TSX:APHA) Shares Rise Over 8% Yesterday?

Description

Shares of cannabis heavyweight, **Aphria** (TSX:APHA)(NYSE:APHA) gained 8.8% yesterday to close trading at $7.56. The stock is now up 16% year to date.

On January 22, 2020, Aphria announced that it received its E.U. GMP (European Union Manufacturing Practices) certification as an active substance manufacturer. This certification was received for its Aphria One Facility in Ontario and is likely to strengthen Aphria's international export capabilities.

Company CEO Irwin Simon stated, "Looking ahead, we are excited by the momentum and expect to see acceleration in terms of both sales and profitability in the second half of fiscal 2020. We continue to believe the opportunities for long-term shareholder value creation are very strong in Canada and internationally."

The E.U. GMP certification will allow Aphria to become a bulk supplier of dried flower for medicinal use to other certified facilities. The latter can then further process or package dried flower into finished cannabis products for sale.

On January 21, Aphria also received an E.U. GMP certification for its subsidiary, Avanti Rx Analytics (ARA). These certifications might very well turn out to be game changing for the company. It will advance Aphria's leadership in the medical cannabis markets in Europe where demand is expected to grow over the next few years. These announcements drove APHA stock higher yesterday.

Aphria has over 2.4 million square feet of licensed production capacity of up to 255,000 kilograms and is well positioned to lead the Canadian and international markets.

Aphria stock is trading 47% below the 52-week high

Despite the recent upward spiral, Aphria stock is trading 47% below its 52-week high and 67% below its record high. APHA stock lost considerable value in the last year, as the overall weakness in cannabis decimated investor wealth.

Aphria and peers reported quarterly results significantly below consensus estimates in the last year. Pot stocks have experienced lower-than-expected demand due to cannibalization from illegal markets and slow rollout of retail stores in major Canadian provinces. This has resulted in high inventory levels for most pot companies, which then impacted the profit margins.

Now marijuana companies are banking on Cannabis 2.0 products to increase demand. Further, the acceleration of retail store openings over the next two years will also increase the demand for recreational cannabis products, easing the demand-supply gap.

Why Aphria is a solid long-term bet

While most pot companies are struggling with falling profits, Aphria has reported a positive adjusted EBITDA for three consecutive quarters. The company has an extensive distribution network in all provinces through partnerships with Shoppers Drug Mart and Great North Distributors.

These partnerships have meant that Aphria products are on the shelves of +500 physical stores, and this number is increasing weekly. Shoppers Drug Mart, the country's leading pharmacy chain, has 1,300 stores in nine Canadian provinces and Aphria was the first licensed producer to partner with the former.

Aphria is optimistic about the growing addressable market for medical and recreational cannabis products. It has valued the global adult-use cannabis space at $150 billion, while the medical marijuana segment is valued at $50 billion. Aphria expects the Canadian adult-use market to touch $6 billion annually by 2024.

The drivers for cannabis companies, including Aphria, are more than encouraging. Will APHA stock make a comeback in 2020 after a disappointing 2019?

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