



TFSA Investors: Buy Aphria (TSX:APHA) Stock

Description

Cannabis grower and leading distributor **Aphria's** (TSX:APHA)(NYSE:APHA) stock price could continue to surge and outperform industry peers in 2020, and I'm maintaining my positive outlook and reiterating a buy recommendation on this marijuana firm.

In a [November 2019 post](#), and while discussing three potential buys for 2020, I likened the stock's potential payoff to that on a cannabis lottery ticket. Among other positives on the marijuana stock I also noted, "The company has a robust distribution network through a Germany subsidiary that only requires European Union Good Manufacturing Practices (E.U. GMP) certifications for its Canadian production facilities to tap into a fast-growing high-margin market. The certification process is already underway, while a Germany production tender win could further propel revenue growth."

The long-awaited certifications all came in this week!

I was very intrigued when management first announced the receipt of E.U. GMP certification for the company's Malta-based subsidiary Avanti Rx Analytics on Tuesday and promised that the company could start shipping bulk cannabis to Germany within a few months.

Avanti doesn't grow cannabis (it's a processing and manufacturing lab). How then could the receipt of E.U. GMP certifications there allow the company to ship Canadian grown cannabis to Germany, when the grow facilities aren't certified under E.U. GMP guidelines yet?

One idea was that agricultural output like dried pot could be shipped for processing into an E.U. GMP certified facility if they only meet the E.U. Good Agricultural and Collection Practices (E.U. GACP) for it to be exported to Malta (an E.U. territory) where it could then be processed further and packaged for the Germany market.

But Aphria's grow facilities in Canada were not yet E.U. GACP certified, to the best of my knowledge. A toll processor that manufactures finished medical products has serious responsibilities to verify that its raw materials meet required minimum specifications under E.U. GMP guidelines, and Avanti could still have faced some challenges importing Aphria's cannabis products into mainland Europe.

There was still one possibility: Avanti could import the bulk product as a “bulk drug substance,” as the E.U. GMP Part II guidelines document on *Basic Requirements for Active Substances used as Starting Materials* incorporates the sentence “Finally, these guidelines do not apply to bulk-packaged medicinal products” right in its scope.

Maybe this was the company’s intended strategy through which it could market its products in Europe.

The biggest news came in on Wednesday

The company finally received the long-awaited E.U. GMP certification “as an active substance manufacturer” for its flagship Aphria One facility, which allows it to export bulk dried cannabis flower to any eligible European market.

How is this big news?

Medical marijuana margins are currently better in Germany. The company can now ship product into this new market through its subsidiary CC Pharma, which has a deep and vibrant distribution network in the European nation.

These “[finally correct](#)” certifications couldn’t have come at a better time, as CC Pharma has battled declining revenues and shrinking margins since a government-reimbursement policy change negatively impacted market demand.

New exports of Canadian-grown product will commence into the E.U. channels to capture better margins and boost the company’s EBITDA beginning the second half of this year.

Why buy?

Improving margins and an expanding market reach give a positive outlook. Even better, the company ranks among the few well-funded marijuana firms in Canada today, and it announced a \$100 million strategic investment from an unidentified institutional investor on Friday. Cash problems aren’t a concern, unlike at some competitors.

Further, the company has been posting impressive growth numbers in the local market lately. It even bought wholesale products to meet customer orders last quarter when its close competitors were complaining of slow store rollouts and regulatory challenges, which significantly limited market growth across the provinces.

A new high-margin market for its products has just been opened before it begins local production in Germany (after a big tender win there).

Investor sentiment may have turned lukewarm in recent months, but as the dust settles in the marijuana space, the firm’s star could shine much brighter, and investors could reap some good tax-free returns on its shares in a TFSA account.

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