



## Cannabis May Not Rebound in 2020, but Aphria (TSX:APHA) Could Soar

### Description

Many pundits are predicting that after a rough 2019, cannabis stocks will bounce back in 2020. During 2019, the marijuana bubble burst, seeing many cannabis stocks plunge sharply over the course of the year, causing the industry's largest exchange-traded fund (ETF), **ETFMG Alternative Harvest ETF**, to lose a whopping 35%, with its largest single holding **Canopy Growth** shedding the same amount. This has sparked considerable speculation that marijuana stocks are attractively valued and will bounce back during 2020, particularly as cannabis beverages and other derivative products grow in popularity.

**Organigram's** recent solid results were much-needed good news for an industry, which appears to be struggling to unlock value and meet investor expectations. A major cultivator that hasn't been as roughly handled by the market is **Aphria** (TSX:APHA)(NYSE:APHA). The company's market value was sharply impacted by a scathing research report released in late 2018.

### Improving outlook

Aphria also surprised the market with it becoming one of the few [cannabis cultivators](#) to report a net profit for its fiscal fourth quarter 2019 of \$15.8 million. Since then, it reported net income of \$16.4 million for its fiscal first quarter 2020 and a net loss of almost \$8 million for the second quarter. Aphria was also adjusted EBITDA positive for the last three quarters, which is an impressive achievement in an industry where many companies are posting large losses. This includes Canopy, which announced a net loss for the six months ending September 30, 2019 of a very worrying \$1.7 billion.

Aphria is poised to continue unlocking value for investors. The cultivator finished the second quarter in a solid financial position with \$498 million in cash and long-term debt, including leases as well as convertible debentures of \$496 million.

Aphria is also strengthening its distribution network by boosting its retail presence in Canada, which will lead to higher sales. It has the capacity to support a marked uptick in sales with 255,000 kilograms annually of licensed production in Canada.

The company is focused on building its presence in Germany, which is one of the most sought-after

medical marijuana markets globally; it is larger than Canada's recreational and medical cannabis markets combined. Aphria has established the necessary framework export Canadian cannabis to Germany and has the required distribution infrastructure in place.

Aphria has also recognized the considerable potential for legal cannabis sales in Latin America where Brazil, the region's most populous nation, legalized medical marijuana in December 2019. Uruguay legalized the recreational use of marijuana, and there are signs that the legal cannabis industry in the region will expand at a solid clip, as more nations legalize its use.

Aphria has established its regional hub in Colombia, a country well known for its agricultural industry, rich soils, and exceptional climate. The company acquired 22 hectares of land in Colombia's coffee region, where it plans to construct eight hectares of greenhouses, which will have the capacity to cultivate up to 30,000 kilograms annually.

Colombia has the potential to become a [leading jurisdiction](#) globally for the legal cultivation of cannabis because of its favourable climate and low costs. It has been estimated that it could cost a mere \$0.05 to produce a gram of dried flower compared to \$1 to \$2 in Canada. If Aphria can successfully secure the appropriate permits and commence operations, this could be a significant earner for the company.

## Foolish takeaway

Aphria is one of the few profitable Canadian cannabis cultivators. When that is combined with its large international distribution network and solid future growth prospects, it is an appealing play on the emerging legal cannabis industry. Aphria is attractively valued trading at just under four times its sales, which is far lower than Canopy and many other cannabis stocks.

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