



Could Aphria (TSX:APHA) Be a Millionaire Maker Stock?

Description

Several cannabis investors have seen a massive drop in wealth over the last year. Shares of **Aphria** (TSX:APHA)(NYSE:APHA) and peers are trading significantly below their record highs. Cannabis for recreational use was legalized in Canada in October 2018 and marijuana companies were expected to consolidate their positions in this high growth market.

However, lower-than-expected demand due to the slow rollout of retail stores in major Canadian provinces, health issues related to the use of vapes, cannibalization from the illegal market, high inventory levels, mounting losses and regulatory issues all played a huge role that decimated cannabis stocks.

Shares of Aphria are currently trading at \$5.09, which is close to 80% below its record highs. The stock went public back in December 2014 and closed trading at \$0.84 that day. If investors would have invested \$1,000 in Aphria at that price, they could have bought 1,190 shares.

This investment would have been worth over \$27,000 at the start of January 2018 and it would have been valued at \$6,000 right now.

But as we know past returns matter little to prospective investors. Will Aphria rise from the ashes to crush market returns and increase investor wealth exponentially in the upcoming decade?

Aphria is a profitable pot stock

While the majority of pot companies are burning through cash, Aphria has managed to report an operating profit in two of the last three quarters. While these profits have been driven by fair value adjustments, a positive operating income remains elusive.

In the cannabis industry, fair value adjustments are calculated on the basis of the difference in costs incurred to harvest plants and the revenue they might generate.

In the quarter ended in November 2019, Aphria's sales rose by a massive 550% year over year to

\$120.6 million and ended the quarter [with a cash balance](#) of almost \$500 million.

In the last two quarters, its net income stood at \$8.5 million while its cash balance fell by \$73.3 million, giving the firm enough leeway to improve the bottom line in the next few months.

Acquisition driven growth

Aphria can also use its cash reserves to take advantage of the current economic downturn and bear market to acquire companies at a discount. Its acquisition of CC Pharma, a German medical marijuana distribution company, has been a key driver of sales in the last few quarters.

This acquisition provided Aphria with 317 active German national pharmaceutical licenses and access to over 113,000 active pharmacy accounts.

In the last two quarters, distribution revenue stood at \$181.8 million and accounted for 74% of total sales. Aphria now aims to increase its international footprint and establish operational hubs in similar growth markets.

What next for Aphria investors?

Aphria is already one of the top marijuana producers in Canada, with annual production capacity of 255,000 kilograms per year. One of Canada's major provinces, Ontario, is looking to provide licenses to several retail stores in the coming months.

This should result in incremental revenue growth for Aphria and its peers, which may also reduce inventory levels. Analysts [expect Aphria sales](#) to rise from \$237 million in 2019 to \$792 million in 2022.

Its EBITDA is estimated to rise from -\$27.7 million to \$132 million in this period, making it one of the top stocks in the cannabis space.

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