



Market Rally: Is Aphria (TSX:APHA) the Top Cannabis Stock?

Description

Aphria (TSX:APHA)(NYSE:APHA) has rightly caught the attention of investors over the past month.

Cannabis stocks were the feel-good story for several years in the 2010s; then recreational legalization became a reality in October 2018. From that point onward, the sector has taken its lumps. There is more than enough blame to go around. Many producers have pointed the finger at provincial execution that failed to open the door for a more lucrative retail rollout. And valuations had grown to dangerous levels before these [problems emerged](#).

The TSX has enjoyed a [market rally](#) after a brutal March that saw stocks dive due to the COVID-19 pandemic. Some sectors have thrived in April, while others are still floundering. Today, I want to look at one stock in the cannabis sector that has shown more promise than its peers. Should investors have faith in this run to continue going forward?

Why Aphria stock jumped to start the spring

Aphria is one of the top five largest cannabis producers listed on the TSX. Its shares have climbed 28% month over month as of close on April 23. However, the stock is still down 54% from the prior year. The stock enjoyed a solid bump after the release of its third-quarter fiscal 2020 results earlier this month.

Net revenue hit \$144.4 million in Q3 FY 2020 — up 96% from the prior year and 20% from Q2. Adjusted EBITDA increased 78% to \$6 million. Aphria also reported operating income of \$8.7 million in the quarter over a \$9.6 million loss in the previous year. The company managed to be one of the first of the top producers to achieve profitability. Moreover, Aphria finished Q3 with a strong balance sheet and \$515.1 million in cash and cash equivalents. It still has its eyes on further domestic and international growth.

The company's revenue increase was largely due to a spike in sales to provincial control boards. Cannabis sales in Ontario and Quebec experienced heavier volumes when the lockdowns initially came into effect. However, this activity has normalized in recent weeks.

Can the cannabis sector regain momentum in 2020?

Aphria's performance has been promising, but investors are still looking for improvement across the board in this sector. The dream of federal legalization in the United States appears to be out the window with the defeat of Democratic candidate Bernie Sanders. Presumptive nominee Joe Biden has not been open to cannabis legalization, while current president Donald Trump is committed to leaving it to the states.

There is also the impact of the COVID-19 outbreak. Aphria made progress in the third quarter, but it has suspended its guidance for the full year. There are many risks to the industry mostly stemming from the interruption of supply chains and the downward adjustment of sales orders.

Meanwhile, adult-use cannabis sales by month in Canada have enjoyed a steady increase since March 2019, according to Statistics Canada. This is good news for Aphria and other producers. There are also signs of the beginning of a re-opening in European countries like Denmark, Austria, and Germany. This is good news for Aphria's European links.

Should you buy Aphria stock today?

Aphria is one of the first of the major producers to achieve profitability. The company also boasts a solid balance sheet. Shares last had a favourable price-to-book value of 0.7 and its stock is still trading at the low end of its 52-week range. Cannabis sales have shown signs of resilience in this crisis, so Aphria's stock may have room to run in 2020.

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