TFSA Investors: 3 Reasons to Buy Aphria Stock Today

Description

Cannabis firm **Aphria's** (TSX:APHA)(NASDAQ:APHA) stock price rallied to close 9% higher on Monday after W. Andrew Carter, a respected equity analyst at Stifel Financial, upgraded the top marijuana stock from a Hold to a Buy and increased his price target. The analyst's US$5.90 new price target on APHA shares implied a 26% upside from the company's previous share price at the time.

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There could be plenty upside potential on the pot ticker, but should you buy the Canadian marijuana stock in a TFSA account today?

Should you buy Aphria stock today?

APHA [is one of my speculative buys for 2020](). We had no idea that a devastating coronavirus could ravage our lives, livelihoods, and the economy back then. However, the nascent pot industry has been defensive during the crisis, as consumers loaded up on supplies.

Investors should reasonably look forward to a sustained sales growth in the company's upcoming fiscal fourth-quarter earnings covering the period from March to May this year. Pantry loading in March and April could have boosted Canadian sales, while medical cannabis distribution revenue in Germany should hold steady.

Actually, Germany is a key market to watch going forward. It's the first reason why long-term oriented investors should buy Aphria shares today.

High international revenue-growth prospects

The company's 2019 acquisition of CC Pharma, a leading importer, and distributor to more than 13,000 (out of about 19,000) pharmacies in Germany gave it a significant market share in the European market. The Germany medical market is larger than the Canadian adult-use and medical markets combined.

CC Pharma sources products from third parties, but this is about to change. Thanks to recent European Good Manufacturing Practices (E.U. GMP) licensing at two key facilities, APHA could be shipping bulk products from its flagship grow facility in Ontario to Europe this very quarter.

Direct sales to Germany will allow APHA to capture better margins in the lucrative high-growth market. Even if revenue could remain flat in the near term, as the company works around new insurance reimbursement changes, margin expansions could result in a sudden jump in operating margins.

Further, new shipments to Germany will provide a new market to absorb new production at a critical point in time.

The Canadian marijuana market is already saturated and has proven to be smaller than previously anticipated. The underground pot market isn’t giving way to legit players either. Any attempts to win market share by licensed producers have meant engaging in a catastrophic price war.

Any cannabis company that manages to find a new and vibrant geographic market at this time could preserve margins and deliver the required growth to shareholders. Aphria is about to do just that during fiscal 2021. Its productive capacity ramp-up to 255,000 kilograms per annum allows it to replace Germany inventory purchases with in-house produced inventory while lowering per-unit production costs at the same time. The capital markets like such earnings improvements.

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An already proven profitability profile

Sometimes we become bullish on a company for its profitability potential in the future. This is different. Bullishness on Aphria stock is premised on a solid proven characteristic. The company has proved over past four consecutive quarters that it can run a profitable marijuana business operation.

The company has a proven track record of producing positive operating earnings from cannabis operations. It also reported positive adjusted EBITDA for several quarters during the medical cannabis era. Its low-cost profile will continue to offer strong competitive advantages in the long term.

A strong balance sheet

Very few cannabis market players can boast of as liquid a balance sheet as Aphria’s today. **Canopy Growth** and **Cronos Group**, are exceptions, of course.

The company doesn’t need to raise dilutive new equity financing any time soon. Further, its operations could become cash flow positive in fiscal 2022 to self-finance new growth projects.

Foolish bottom line

Aphria stock is a promising long-term buy-and-hold candidate for outsized capital gains over the next five or so years. Shares should be valued at a premium to peers as profit margins expand. That said, growth efforts will still require many new Canadian store openings for them to get amplified.

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