



## Why Aphria (TSX:APHA) Stock Plunged 18% Yesterday

### Description

**Aphria** (TSX:APHA)(NASDAQ:APHA) is one of the largest cannabis producers in Canada. Back in April, I'd discussed whether the company [deserved recognition](#) in comparison to its disappointing peers. Aphria managed to become one of the first producers to reach profitability. This is a significant milestone, especially when we consider the struggles at **Aurora Cannabis** and **Canopy Growth**.

The company released its fourth-quarter and full-year results for fiscal 2020 on July 29. On the day of its release, Aphria stock tumbled 18.7%. This sharp one-day drop pushed its shares into negative territory for this year. Today, I want to explore why Aphria was hit so hard after earnings. Is there any reason to buy the dip? Let's dive in.

### Why Aphria stock fell after earnings

When the COVID-19 pandemic first forced closures in North America, there was some enthusiasm in the cannabis space. Recreational sales in Canada and the United States enjoyed a significant bump in the early days of the lockdown. However, this momentum has since tapered off. In its Q4 FY 2020 report, Aphria reported a steep loss of \$98.8 million compared to a \$5.7 million profit in the previous quarter.

This retreat was primarily due to the \$64 million impairment charges it was forced to swallow due to its international response to the COVID-19 pandemic. On the positive side, the company saw net revenue increase 5% quarter over quarter and 18% year over year. Moreover, cash cost per gram decreased 5% from the prior quarter to \$0.88.

Investors reacted poorly to Aphria's dramatic quarterly loss, but there are some promising takeaways from this report. However, can investors trust the broader cannabis sector?

### Should you avoid cannabis stocks?

Earlier this month, I'd discussed how the coming [United States presidential election](#) could impact some

TSX-listed stocks. Unfortunately for the cannabis industry, Donald Trump and Joe Biden are both uninterested in pushing for federal legalization. No matter how this coming election shakes out, we are unlikely to see any movement on the nationwide front.

Meanwhile, Canada has begun to correct its questionable course from the beginning of recreational legalization. A slew of brick-and-mortar cannabis shops have opened in 2020. Moreover, the advent of Cannabis 2.0 has introduced edibles and vapes into the market. These products have sold well for top producers so far.

Statistics Canada recently released data that showed a 4% increase in cannabis sales from April to May. In May, sales reached a record \$186 million. This should not come as a huge surprise, as consumption of “vices” and “sin industries” tend to increase during difficult economic times. If the economic pullback persists, cannabis could be a safe bet to thrive.

## Evaluating Aphria in late July

Aphria took a tough shot after its Q4 and full-year earnings release, but investors should not give up on this top producer. Its shares last had a favourable price-to-book value of 1.1. Investors should watch Aphria stock closely and be prepared to pull the trigger if it falls into oversold territory.

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### Date

2025/07/22

**Date Created**

2020/07/30

**Author**

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