Aphria’s Fourth-Quarter Results Show It Still Has a Lot to Prove

Description

Any stock that sees single-day losses in the double digits is in trouble in the current market. Wednesday saw **Aphria** (TSX:APHA)(NASDAQ:APHA) down 18.7% despite some encouraging news in its fourth quarter. A decidedly mixed fourth quarter saw Aphria report a rise in revenue, but ultimately record a net loss of $98.8 million. While quarterly EBITDA growth is encouraging, Aphria clearly still has a lot to prove to investors going forward.

A standout stock in a saturated market

Aphria’s divisive fiscal Q4 comes at a time when mergers and acquisitions could be the next logical step for survival in the overcrowded cannabis space. In fact, consolidation might be the only sure route to long-term market dominance in a patchy legal marijuana market.

The legal weed retail environment never really took off post-legalization. Meanwhile, little headway has been made when it comes to taking on the black and grey markets.

All of this leaves little room for individual cannabis stocks to appreciate. Even Cannabis 2.0 was a muted affair. This is especially troublesome in a new and characteristically uneven industry. In fact, this space is so uneven that indexing doesn’t really work with Canadian pot stocks.

Instead, investors need to pick leading cannabis stocks that outperform their peers. This essentially counts out low-risk buyers and makes Canadian cannabis a stock-picker’s market.

But if the way forward in this country is for cannabis producers to team up, the logic in picking individual stocks for eventual market dominance falls apart. For instance, an investor in cash-rich Producer A might see their star company team up with unprofitable Producer B.

If the latter is a stock which the investor has been avoiding like the plague, then that careful investment thesis (based on profitability in this scenario) is ruined.

Looking beyond Aphria’s fourth quarter

Aphria and **Aurora** (TSX:ACB)(NYSE:ACB) reportedly walked away from merger talks recently. A mega-company with a third of the Canadian market share might have been an exciting prospect. Given an optimal retail environment, such a company might have been expected to rake in close to $1 billion in sales per year.

In addition, it would have had an international footprint that reached somewhere in the region of 25 countries.

But these two businesses are arguably not all that compatible. Aphria generates a lot of its own revenue from the medicinal marijuana market in Germany, for instance. While reliability and predictability from such sales go a long way to establishing shareholder trust, the pharma angle doesn’t have a huge markup. Couple this with Aurora’s major **MedReleaf** boo-boo and these two names don’t really mesh that well.

As a speculative play, a bargain basement Aphria investment might appeal to the long-term investor. However, a net loss and missed analyst estimates ultimately outweighed a fourth quarter rise in revenue this week, so far as its share price performance was concerned.

Against the backdrop of a disappointing retail environment and crushing market forces, even Aphria is unlikely to recover cannabis momentum single-handedly.

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Date
2025/08/21

Date Created
2020/08/01
Author
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