



Aphria (TSX:APHA): This Pot Stock Ends Volatile Week in the Red

Description

Shares of cannabis giant **Aphria** (TSX:APHA)(NASDAQ:APHA) closed trading at \$6.39 on Friday. The pot stock was volatile in the last week as it first gained momentum on an analyst upgrade. Cantor Fitzgerald analyst Pablo Zuanic [increased Aphria's stock price](#) from US\$7.86 to US\$8.23 and named the marijuana stock as one of his top picks in this segment.

The analyst was bullish on APHA and expected the company to increase sales by 25% on a sequential basis in its fiscal fourth quarter of 2020. However, Aphria disappointed investors when it announced Q4 results and reported a net loss of \$98.8 million or \$0.39 per share. Aphria had reported a net profit of \$5.7 million in the previous quarter.

Aphria's sales in Q4 stood at \$152 million and were up 5% sequentially or 18% year-over-year. The company's revenue was also higher [than analyst estimates](#) of \$147 million. However, they forecast Q4 net loss at \$0.04. Aphria stock fell close to 20% following its less than impressive earnings, wiping out its gains early last week.

Another reason why APHA stock slumped was the company's announcement that it filed a prospectus detailing an at-the-market secondary common stock issue, authorizing it to raise \$100 million. This potential equity dilution sent the stock spiraling downwards in the second half of last week.

What's next for Aphria investors?

Despite the company's disappointing results, Aphria remains a company that is well poised to increase investor wealth in the upcoming decade. There are multiple revenue drivers for the pot stock that include an expanding addressable market, new product categories such as Cannabis 2.0 and line extensions.

Aphria is trading at a market cap of \$1.84 billion, and its forward price to sales multiple stands at just 2.6. Comparatively, the company is forecast to expand sales by 28.7% year over year to \$699.52 million in fiscal 2021.

Marijuana heavyweight **Canopy Growth** reported revenue of \$107 million in its last quarter and its sales for the current fiscal is forecast at \$509.36 million. However, Canopy is valued at a much higher market cap of \$9.1 billion.

We can see that Aphria is trading at an attractive valuation. While Aphria reported a loss of \$98.8 million in Q4, this was primarily driven by impairment charges amounting to \$64 million and changes in fair value of investments that totalled close to \$32 million. Excluding these non-recurring charges, Aphria is close to profitability.

Aphria has in fact post a net loss in just three of its last eight quarters, a rarity among pot companies. The company also has a strong balance sheet with close to \$500 million in cash, \$129.6 million in debt, and \$278 million in convertible debentures.

Further, its intention to raise \$100 million in a secondary issue will improve liquidity, giving Aphria enough time to improve profit margins in the next few quarters.

The Foolish takeaway

Aphria stock's recent weakness due to its Q4 results should not deter long-term investors. In fact, Aphria stock is trading 72% below its record high, which should make it attractive to contrarian investors. The company's low valuation, strong balance sheet, and expanding addressable market make it a winning bet among pot stocks.

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Author

araghunath

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