Why Aphria (TSX:APHA) Is a Buy After its Recent Pullback

Description

Aphria (TSX:APHA)(NASDAQ:APHA) has lost over 20% of its stock value since it reported its fourth-quarter earnings on July 29. The company had posted a mixed performance. Investors became anxious after the company's net losses came in at $98.8 million, leading to a fall in its stock price.

Meanwhile, the significant chunk of its losses was from the non-cash impairment charges and the decline in the fair value of its long-term investments. So, I believe the fall in Aphria's stock price was unwarranted. Let's look at the other aspects of its fourth-quarter performance.

Aphria's top line beats expectations

For the quarter, Aphria's revenue came in at $152.2 million, beating analysts' expectations of $148.95 million. Sequentially, the company's revenue increased by over 5%, driven by strong performance in the distribution segment. Meanwhile, its net cannabis revenue fell by 4.5% due to a decline in its revenue from the wholesale segment.

In the fourth quarter, Aphria's gross selling price of medical cannabis increased from $6.41 per gram in the third quarter to $6.63 per gram. Meanwhile, the selling price of adult-use cannabis declined from $5.47 per gram to $5.23 per gram during the same period. The unfavourable product mix and the company's decision to lower its prices in some markets to strengthen its market share dragged its selling price down.

Positive EBITDA for the fifth consecutive quarter

When many of the cannabis companies are still struggling to attain profitability, Aphria has managed to report positive EBITDA for the fifth consecutive quarter. Its adjusted EBITDA came in at $8.6 million, which represents a rise of over 49% from its previous quarter.

The growth in its EBITDA from cannabis and distribution operations contributed to the increase in the company's EBITDA. Meanwhile, the losses in its businesses under development offset some of these expansions. During the quarter, the company's cash cost of production fell over 5% from $0.93 per gram in the third quarter to $0.88. Meanwhile, the company's management is hopeful that it can reduce its cannabis production cost further.

Outlook

On Friday, *BNB Bloomberg* reported that the cannabis industry contributed $8.65 billion to Canada's GDP in May. Meanwhile, the legal cannabis sector contributed $4.66 billion, which represented an increase of 11% from the previous year. The contribution from the illicit market fell 13% year over year to $3.92 billion. So, this shift towards legal cannabis could be a big boost for the cannabis sector.

With its six brands across the medical and recreational sector, Aphria has been strengthening its market share in some of its key markets, such as Ontario, Alberta, Québec, and British Columbia. Meanwhile, the company plans to introduce two new brands in fiscal 2021, which could further improve its market share.

So, I believe the growth in the legal cannabis sector and an increase in Aphria's market share could boost its sales in fiscal 2021.

Also, Aphria's subsidiary in Malta received the EUGMP (European Union Good Manufacturing Practices) certification in the fourth quarter. The certification allows the company to export cannabis products to all the European Union countries that have legalized cannabis. So, I believe the EUGMP certification could boost the company's international sales.

Bottom line

After the recent fall, Aphria was trading at a forward EV-to-sales multiple of 2.49, which was significantly lower than its average of 7.06 for the past three years. Also, the company's balance sheet looked healthier, with cash and cash equivalents standing at $497.2 million at the end of the fourth quarter.

So, given the impressive growth prospects, attractive valuations, and strong liquidity, I am bullish on Aphria. I believe investors should utilize the recent pullback in the company's stock price to accumulate the stock for substantial returns.

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