



## Why Aphria (TSX:APHA) Is a Buy Ahead of Its First-Quarter Earnings

### Description

Since reporting its fourth-quarter earnings on July 29, **Aphria** (TSX:APHA)(NASDAQ:APHA) has lost over 15% of its stock value. The company reported net losses of \$98.8 million for the quarter, which made investors nervous, leading its stock price to fall.

Meanwhile, a significant part of those losses was from non-operating expenses and non-cash impairment charges. So, I believe the fall was unwarranted. Let's look at its fourth-quarter performance in more detail.

### Fourth-quarter performance

During the quarter, Aphria outperformed analysts' expectations. Its revenue came in at \$152.2 million, representing a 5% sequential growth. The revenue growth was driven by higher distribution sales, which was partially offset by a decline in net cannabis sales due to a fall in the wholesale segment's revenue.

Its adjusted EBITDA rose 49% to \$8.6 million. The company has reported positive EBITDA for the fifth consecutive quarter, a rare achievement for a cannabis company. The growth in the EBITDA from its cannabis operations drove the company's EBITDA growth.

Meanwhile, on October 15, the company will report its first-quarter earnings, which ended on August 31. Let's look at what to expect.

### First-quarter expectations

After a slight pullback in April due to pandemic-infused lockdown, Canada has witnessed strong recreational cannabis sales. In June and July, retail adult-use cannabis sales increased by 7.9% and 15.2%, respectively. As the local governments began to address the issues of the slow rollout of retail outlets, all provinces reported an increase in their sales.

Meanwhile, Aphria is well positioned to benefit from the growth in cannabis sales. With the six brands across the medical and recreational segments, the company has a significant market share in the Canadian market. So, given the favorable environment, I am bullish on the company's first-quarter sales.

In the fourth quarter, Aphria's cash cost per gram declined by 5% to \$0.88. The company's management expects the cost to fall further, as Aphria Diamond continues to ramp up its production levels. So, I expect the company's adjusted EBITDA could improve in the first quarter.

## Outlook

Although the cannabis sector is undergoing a tough period, the outlook looks brighter. Recently, BDSA had [projected](#) the global cannabis sales to reach \$47.2 billion by 2025 at a compound annual growth rate (CAGR) of 22%. The growing addressable market could benefit Aphria.

By delivering higher quality products and using customer insights and preferences, the company has expanded its market shares in key markets, such as Ontario, Alberta, Quebec, and British Columbia. Further, the company has planned to launch two more brands later this fiscal to strengthen its position.

In the cannabis 2.0 segment, the company has launched only vapes. Meanwhile, it has planned to introduce other products, such as edibles, beverages, and tropicals, in the future, which could further unlock its growth potential.

Moving to the international segment, the company's subsidiary in Malta had received the EUGMP (European Union Good Manufacturing Practices) certification in the previous quarter, which could boost its sales in the EU region. Further, it had signed a two-year supply agreement with Canndoc, a medical cannabis producer in Israel. So, the company's growth prospects look healthy.

## Bottom line

Aphria has outperformed its peers this year, with its stock trading flat, while the industry benchmark **Horizons Marijuana Life Sciences Index ETF** has declined by more than 30%. Despite the outperformance, the company trades at an attractive valuation compared to its peers. The company currently trades at a forward enterprise value-to-sales multiple of 2.8, while its peers, **Canopy Growth**, **Aurora Cannabis**, and **OrganiGram Holdings** were trading at 10.4, 3.4, and 3.2, respectively.

So, given its impressive growth prospects, ample liquidity, and attractive valuation, I believe [Aphria is a good buy ahead of its first-quarter earnings](#).

### CATEGORY

1. Cannabis Stocks

### PARTNER-FEEDS

1. Business Insider
2. Koyfin

3. Msn
4. Newscred
5. Quote Media
6. Sharewise
7. Yahoo CA

**Category**

1. Cannabis Stocks

**Date**

2025/08/30

**Date Created**

2020/10/08

**Author**

rmanjapla

default watermark

default watermark