



Buy the Dip on Aphria Stock's Post-Earnings Plunge

Description

Cannabis producer **Aphria Inc.'s** (TSX:APHA)(NASDAQ:APHA) stock price had fallen more than 18% by mid-day during Thursday's trading session. Investors freaked out at the Canadian pot firm's revenue declines in its quarterly earnings results for the three months ending August 31 this year. Although Aphria's fiscal Q1 2021 financial results missed analyst expectations, I believe a sudden near 20% decline in its stock price is overdone.

Perhaps this is another buying opportunity for long-term investors in the marijuana play.

How did Aphria's latest earnings disappoint stock investors?

The company's net revenue of \$145.7 million during the three months to August 31, 2020, fell significantly short of the \$159.6 million analysts had predicted for the quarter. Total sales declined sequentially by 4% from \$152.2 million in revenue generated in the previous quarter.

That said, the company's net loss of \$5.1 million for the quarter was much better than a \$9.5 million loss the market had anticipated.

APHA's revenue miss was mainly a function of a significant dip in pharmaceuticals distribution revenue in Europe due to the COVID-19 pandemic. Distribution revenue declined by 17% sequentially due to low patient traffic to medical offices during the coronavirus outbreak.

The pandemic's impact was also felt in a 5.4% sequential decline in medical cannabis sales in Canada. Actually, there was a 15.8% sequential decline in medical cannabis volumes that was partially offset by an 11.3% increase in average selling prices. The number of registered patients in Canada declined during the period as new patients could not be onboarded during the national health crisis.

Investors freaked out on the top-line numbers, and they seem to have ignored the bright side portrayed in Aphria's latest quarterly financial results.

The good numbers in APHA's mixed earnings results

If Aphria is regarded as a cannabis stock, why should investors freak out when its side business becomes volatile?

The weakness in APHA's operating results was in a pharmaceuticals distribution business in Europe. Distribution revenues used to contribute the most to total net sales, but they contribute very little to the company's operating earnings in the form of Adjusted EBITDA.

I would wish to point out that, if investors look for growth in the business, their focus should be not on its slow growth and low margin distribution sales, but on the company's growing hot and high margin cannabis segment. Interestingly, that's where the beautiful numbers were mostly loaded.

Aphria grew its cannabis sales by 18% sequentially to \$62.5 million over three months. Its marijuana gross profit jumped 106% year-over-year to \$31.5 million for the quarter. Most noteworthy, its adjusted EBITDA from marijuana operating marijuana business surged 11% sequentially to \$10.4 million.

The accounting net loss of \$5.1 million overshadowed a nice 419% year-over-year growth in operating income to \$20.7 million. The net loss was mainly caused by a \$19.3 million in foreign exchange losses. It's tricky to compare the net loss for the latest quarter against a \$16.4 million profit last year.

The latter mainly resulted from fair value gains in investments and unrealized gains on debentures. Such non-operating and largely non-recurring numbers distort the operating results in a significant way.

Most noteworthy, the sudden shock in distribution revenue overshadowed a 25% sequential surge in distribution operating earnings, as seen in an adjusted EBITDA of \$2.4 million.

Although weaker, distribution operations sales had a higher gross margin of 14.4%, showing a margin expansion from the 12.1% reading printed during the previous quarter.

Foolish bottom line

Aphria was a victim of the pandemic, yet it still produced hilarious growth numbers in its core cannabis business. The company is adequately funded with \$400 million in cash and cash equivalents on the balance sheet, dilution isn't a big concern yet.

I am very much tempted to conclude that the sudden plunge in the company's stock price is overdone, and focused too much on its soon to be non-core distribution segment as it [starts distributing medical cannabis through CC Pharma in Germany](#).

This sudden dip is a lucrative buying opportunity.

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