



## Better Than Aphria? This Tiny Marijuana Stock Is Taking the Vapes Market by Storm

### Description

**Aphria's** (TSX:APHA)(NASDAQ:APHA) stock price closed down more than 17% on Thursday as investors [punished the marijuana firm](#) for its 17% sequential decline in its quarterly distribution revenue. On the same day, a smaller marijuana manufacturing play **The Valens Company's** ([TSX:VLNS](#)) stock price declined by 4.7% after reporting its quarterly earnings after market on Wednesday.

Judging from the market's reaction to the respective companies' quarterly earnings results during Thursday's trading session, it appears like The Valens Company had a better set of financials from cannabis operations.

### The Valens Company's amazing quarterly performance

Valens's latest fiscal third-quarter 2020 results for the three months to August 31 were released after market on Wednesday. Quarterly net revenue grew by 2.8% sequentially to \$18.13 million from \$17.63 million a quarter ago, and 10% year-over-year.

I believe the single-digit sequential sales growth rate depicted in the top-line number is misleading. It was a significant understatement of what the company actually achieved during the quarter.

Licensed cannabis producers did not bring much biomass to Valens for toll processing during the COVID-19 pandemic. In the face of a massive 64% sequential decline in toll processing and co-packaging revenue to just \$2.6 million for the quarter, the company was able to grow its product sales revenue by 52% during the same period.

The company's pivot from toll manufacturing to white label and custom product manufacturing is paying dividends, even though at lower gross margins.

As anticipated [in a pre-earnings discussion](#), the company's new partnership contracts signed during the quarter have been very accretive to business growth and product portfolio expansion lately. The

company increased the number of its stock-keeping units (SKUs) with the provinces by 56% from 36 SKUs in a previous quarter to 56 SKUs by August 31 this year.

Investors may appreciate the sustained growth momentum in the company's recently launched product offerings with its partners. Management was proud to disclose this interesting fact in its earnings release.

"Of the vape brands sold through the Ontario Cannabis Store in September 2020, Valens' manufacturing partners account for 4(four) of the top 15 brands by dollar value with products from two of the partners establishing that spot despite only being in the market for a few weeks after launching partway through the month of September."

Ontario is the largest cannabis market so far in Canada. Valens is on course for a great future if it manages to capture and hold onto such profitable niches in the budding market. More so if we consider that the vapes market is only getting started, and could comprise about 10% of the overall marijuana market in the near future.

That said, Aphria is a strong contender to the crown in the vapes segment. It saw its vapes oil volume grow by 15% sequentially during the past quarter. Aided by price increases, the company reported a 17.4% sequential growth in vapes category revenue.

Like APHA, VLNS reported its sixth consecutive quarter of positive adjusted EBITDA. The sharp decline in topline revenue after a shift from toll processing could damage its adjusted operating profitability profile.

Valens claims to be the lowest-cost producer of oil-based marijuana products in Canada at the moment. It may be early days to tell who will rule the emerging and fast-growing vapes segment in the pot industry. Perhaps Aphria's manufacturing plant, the Center of Excellence, will match VLNS's upgraded and expanded manufacturing facilities. But I have an inclination towards The Valens Company becoming a significant competitor in cannabis edible products in the long term.

The other emerging name to watch out for in the edibles segments could be a nano-cap **Indiva Ltd.**

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