



Aphria (TSX:APHA) Stock Plunges: Marijuana Industry in Trouble

Description

The marijuana industry lost investor confidence a long time ago. Apart from an early boom, the industry hasn't performed, and while it *did* help some investors make fortunes, more investors probably lost a lot of their money in the industry. Even when the industry shows a little life, investors are skeptical about how long it will continue.

The same thing happened in the pandemic, which, while devastating for most other businesses, became a lifeline for the legal marijuana industry. The sales have been increasing almost consistently since April. The momentum the industry built when people started consuming more marijuana during the lockdown is continuing, but not every stock managed to ride that momentum.

Aphria (TSX:APHA)(NASDAQ:APHA) performed exceptionally well after the crash. From its lowest point during the crash to its highest point in July, the company grew its share price by 157%. But the stock slumped once again after it posted dull first-quarter results.

Aphria first-quarter results (the fiscal year 2021)

Thanks to the decent sales numbers and the vitality that the legal marijuana industry showed during the pandemic, investors' expectations were a little high for Aphria — a company that crushed it compared to many other players in the industry. But it fell short of [those expectations](#). The net revenue actually jumped higher compared to the same quarter last year, but it was down by about \$6.5 million compared to the previous quarter (Q4 2020).

One of the main reasons behind net revenue dropping was the low distribution revenue yield from Aphria's German market. Due to lockdowns, patients made fewer in-person visits to doctors and pharmacies, which resulted in less-than-expected sales in the region. But apart from that "dull" part, the first-quarter results seem encouraging.

The kilogram of product sold increased substantially, while the production cost per gram of cannabis went down a cent. If it were any other quarter, investors might've considered these quarterly results a powerful improvement, but this time was different. The stock plunged over 24%.

Should you consider buying Aphria?

The marijuana industry is in trouble for sure, but even after its lacklustre [quarterly results](#), Aphria stock looks much more potent than other industry giants. The company increased its sales (per kg) by 42%, and it saw encouraging numbers regarding the sales of its Cannabis 2.0 centerpiece: vape products, which made up 13% of the total sales. The company is hoping to stretch it to 20% in the future.

The chances are that the company's sales in Germany would pick up when the pandemic situation in the region settles down. And if the company manages to grow its current sales numbers and achieve success with its other Cannabis 2.0 products like edibles and beverages, the stock might pick up the pace again. Aphria can be an outlier in an industry that currently seems destined to fail.

Foolish takeaway

For investors who are considering adding Aphria to their portfolio, this 24% slump can be a boon (i.e., a chance to buy an amazing "recovery" stock at a discount price). You may not get the kind of recovery-driven growth that investors got after the pandemic, but the stock still has life. And if you want to add just one stock from the industry, you may want to consider Aphria for that position.

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