Should You Buy Aphria (TSX:APHA) After Its Recent Pullback?

Description

Since reporting its first-quarter earnings on October 15, **Aphria** (TSX:APHA)(NASDAQ:APHA) has lost over 20% of its stock value. The company had missed both analysts' top- and bottom-line expectations for the quarter, which weighed heavily on its stock price.

Its net revenue came in at $145.7 million, lower than analysts' expectation of $159.6 million, while its net losses of $0.02 per share were higher than analysts' expectation of $0.01 per share.

So, was its first-quarter performance really bad?

Decline in revenue

Compared to the prior quarter, Aphria's net revenue declined by 4% due to lower distribution revenue. Amid the pandemic, the number of elective medical procedures and in-person visits fell, lowering its revenue from CC Pharma in Germany.

However, its net cannabis sale grew close to 18%, driven by a strong performance from the adult-use cannabis segment. The introduction of larger format SKUs from Good Supply and P'tite Pof, the launching of a new value brand – B!NGO, and the growth in vape sales drove its revenue from the adult-use cannabis segment.

Meanwhile, its medical cannabis segment experienced some softness due to a decline in new patient registration amid the pandemic.

A sixth consecutive quarter of positive EBITDA

Aphria has reported a positive EBITDA for the sixth consecutive quarter. Its adjusted EBITDA came in at $10 million, an increase of 17% from its previous quarter. Higher cannabis sales and the company's cost-cutting initiatives drove its adjusted EBITDA.

It lowered its cash cost of producing one gram of cannabis to $0.87 from $0.88 in the prior quarter. The company has managed to reduce its cash cost for the fourth consecutive quarter. Its SG&A (selling, general, and administrative) expenses declined from $116.6 million to $54.4 million.

Meanwhile, Aphria burned through $97 million of cash during the quarter. However, the company's management has claimed that most of that amount was one-time expenses and would not continue in the future. At the end of the quarter, the company's liquidity position looked healthy, with cash and cash equivalents of $400 million.

Healthy outlook

During the earnings call, the management stated that customers are spending more on the legal cannabis market than the illicit markets. So, this shift would greatly benefit the cannabis companies along with Aphria. The company has credited innovative product offerings, higher quality, a decline in cannabis prices, and easy accessibility due to the opening of new retail stores for this shift.

Meanwhile, Aphria, through its strong value propositions and differentiated product offerings, has managed to expand its market share across primary markets, including Ontario, Alberta, Quebec, and British Columbia.

In the international market, the company's growth prospects look strong. Earlier this month, it completed its first shipment of the dried flower from its Aphria One EU GMP facility to CC Pharma. Its cultivation facility in Neumünster, Germany, is projected to complete in the second quarter. Further, the company has signed a two-year supply agreement with Canndoc, a medical cannabis producer in Israel.

Bottom line

The recent decline in Aphria's stock price has also brought Aphria's valuation multiples to attractive levels. Currently, it trades at a forward enterprise value-to-sales multiple of 2.7, while its peers, **Canopy Growth** and **Aurora Cannabis**, trade at 15.7 and 3.5, respectively.

Given its growing addressable market, expanding market share, and attractive valuation, I am bullish on Aphria.

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