



Is Aphria (TSX:APHA) a Buy After its Impressive 2nd-Quarter Sales?

Description

The cannabis stocks have been on upward momentum in the last couple of months, following Joe Biden's victory in the presidential elections down south and legalization of cannabis in five more states in the U.S.

Meanwhile, **Aphria** (TSX:APHA)(NASDAQ:APHA) reported an [impressive second-quarter performance](#) last week, leading its stock price to hit a two-year high. So, should you buy Aphria at these levels? First, let's look at its second-quarter performance and its growth prospects.

Impressive second-quarter earnings

Aphria outperformed both analysts' top-line and bottom-line expectations during the quarter. Its revenue came in at \$160.5 million, beating analysts' expectations of \$153.9 million, while its adjusted EPS stood at \$0.01, comfortably outperforming analysts' expectation of a loss per share of \$0.03.

Quarter over quarter, the company's revenue grew 10%, driven by increased distribution revenue in Germany, higher cannabis sales, and sales contribution from its recent acquisition of SweetWater.

Meanwhile, the average selling price of its medical cannabis declined from \$7.38 per gram in the first quarter to \$6.96 per gram, primarily due to its pricing and promotional programs. However, the average selling price of its recreational cannabis increased from \$4.15 per gram to \$4.29 per gram due to a favourable sales mix. The company's cash cost of producing dried cannabis declined for the fifth consecutive quarter to \$0.79 per gram.

Meanwhile, Aphria reported positive adjusted EBITDA for the seventh consecutive quarter — a rare achievement for a cannabis company. Further, the company's free cash flow improved by \$70 million and was inching closer to achieving its target of reporting positive free cash flows. Its financial position also looked healthy, with its proforma cash standing at \$320 million at the end of the quarter.

Aphria's growth drivers

With its compelling and relevant product offerings, Aphria has been expanding its market share in the Canadian recreational market. At the end of its second quarter, its overall market share stood at 16.2%, occupying the top position in the vape and dried flower segment. Last month, the company expanded its offerings by introducing Pipe Dream, a premium flower strain with a high THC content.

Further, with the acquisition of SweetWater, Aphria could utilize SweetWater's manufacturing, marketing, and distribution infrastructure to expand its operations in the highly lucrative U.S. cannabis market, which could reach \$200 billion amid federal legalization.

Last month, Aphria also announced to merge with **Tilray** to create the largest cannabis company in the world based on revenue. The combined entity would enjoy a significant market share of 20% in the Canadian cannabis market. Further, the new company would have five brands in the European medical cannabis market, with two production facilities.

The combined entity would have a notable presence in the consumer packed goods space in the U.S., given Aphria's acquisition of SweetWater and Tilray's Manitoba Harvest, a hemp food manufacturer. More importantly, the synergies could produce \$100 million of pre-tax savings for the combined entity within the first two years of completing the transaction. Aphria's management expects to close the deal by the end of April or early May. So, Aphria's growth prospects look healthy.

Valuation and analysts' recommendations

Amid the recent surge in its stock price, Aphria's valuation has moved up, with its forward price-to-sales and price-to-book multiples standing at 6.5 and 2.7, respectively. However, the company is trading at a discount compared to its peers **Canopy Growth** and **Aurora Cannabis**.

Analysts also look bullish on Aphria. Of the 13 analysts following the stock, 10 have given a "buy" rating, while three have issued a "hold" rating. Further, Cantor Fitzgerald raised its price target from \$11.75 to \$26 last week to account for the merger with Tilray.

Bottom line

Aphria's impressive second-quarter performance reaffirms [my bullish view](#) on the stock. Given the renewed interest in the cannabis space, Aphria's high growth prospects, and the synergy benefits with Tilray, I expect the upward momentum in the stock to continue.

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