



Cannabis Stocks Surge as Aphria (TSX:APHA) Rises 82%

Description

Cannabis stocks have been positively surging lately, with **Aphria** (TSX:APHA)(NASDAQ:APHA) up 82% for the year so far. **Canopy Growth** ([TSX:WEED](#))(NYSE:CGC) has also been roaring, up 42% for the year.

It's been a long time since we've seen price gains like this from cannabis stocks. Ever since legalization hit in 2018, cannabis stocks have been trending mostly downward. Despite the occasional rally here or there, they have failed to impress investors like they did in the past.

Now that might be changing. Cannabis stocks as a whole are way up for the year — more than the TSX is — and are beginning to show some signs of maturity. In this keeps up, it could be early 2018 all over again. In this article I'll explore the resurgence in cannabis stocks, using Aphria and Canopy as the main examples of the phenomenon.

Aphria rallies

Aphria has so far been a [major winner](#) in the 2021 cannabis stock rally. Its 82% gain was kicked off by news that the company would be merging with **Tilray**, a U.S.-based producer. The Tilray merger might give Aphria better access to the U.S. market, among other benefits. So, it makes sense that the stock would see gains on that news.

However, Aphria's fundamentals give mixed signals. The most recent quarter did see a big revenue gain — about 33% — but the net loss grew from \$7 million to \$120 million. That wasn't just an accounting technicality either, as cash flows from operations were also massively negative. It seems like Aphria's rally was mainly driven by hype surrounding the Tilray deal — along with the company's admittedly strong revenue growth. As for profits, they're nowhere to be seen.

Now, let's take a look at Canopy.

Canopy up more than 200% in under a year

Canopy Growth is another cannabis stock that [has been rallying lately](#). It's not up as much as Aphria, but it's positing mighty fine gains itself.

WEED reached a low of \$14.14 in the COVID-19 market crash. As of this writing, it sat at \$47.69. That's a 237% gain!

Canopy Growth doesn't have the obvious catalyst that Aphria does, which may be why its returns have been lower. However, it has Aphria beaten on sales growth. In its most recent quarter, Canopy grew revenue by 76% year over year. Its gross margin also increased from \$3 million to \$26 million. These are pretty impressive growth figures. However, in the six months prior to its most recent earnings release, Canopy posted a \$224 million net loss and a whopping \$280 million cash outflow from operating activities. Neither of those numbers were pretty. But in the cannabis sector, sales growth is often enough to send a stock soaring, and Canopy has been a winner by that metric.

Foolish takeaway

After years in the doldrums, the cannabis sector is springing back to life, with major rallies in stocks like Aphria, Canopy, and Tilray. Between merger mania and solid sales growth, there's been a lot going on that could explain the frothy gains. However, all of these companies are still losing massive amounts of money, despite the good news. Personally, I'm not buying any of them. But if you're a momentum investor, maybe some of these names are worth looking at.

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