



## Aphria's Stock Falls 14% As Earnings Fall Below Market Expectations: Buy the Dip?

### Description

**Aphria** (TSX:APHA)(NASDAQ:APHA) stock declined by 13.7% by mid-morning on Monday as investors expressed their disappointment in the company's third-quarter fiscal 2021 earnings. Aphria released its results for February 2021 earnings before the markets opened on Monday.

### Why did Aphria stock fall 14% after earnings?

Aphria's Q3 net revenue at \$153.6 million was far below consensus analyst estimates for \$161.4 million. The company's net loss per share of \$1.14 worse than the market's estimate for a \$0.05 loss per share. The company's misses on both revenue and earnings rendered its recently raging stock more malleable as investors adjusted repriced the company's shares in light of the new information made available on Monday.

### The earnings miss in perspective

Aphria experienced painful sales declines in key markets due to resurgent COVID-19 lockdowns. Its distribution revenues from Europe were down 5% sequentially to \$87.1 million as Germany tightened coronavirus pandemic mobility restrictions again. Net revenue from Canadian recreational sales was hit the most, as gross sales declined by 17.3% quarter-on-quarter. Net cannabis sales at \$51.7 million were nearly 8% lower than comparable revenue last year, after a 23.8% sequential decline.

Naturally, investors would have expected Aphria to report growing sales as this was the first full quarter of SweetWater (the U.S. craft beer brewer acquired in 2020) results consolidation. Instead, the company's total net revenue declined 4.3% quarter over quarter. COVID-19 restrictions also got the better of SweetWater's on-premise beer sales in the U.S.

Although the company still reported its eighth consecutive quarter of positive adjusted EBITDA (\$12.7 million for Q3), its adjusted EBITDA from cannabis operations declined by 38.8% sequentially from \$12.9 million during a prior quarter.

I still consider cannabis operations to be the company's core business, around which it has acquired distribution operations and a cannabis inclined craft beer business as added arsenal in building and expanding global market penetration capabilities. Now that the core business suffered a significant setback, Aphria's stock investors have reason to frown at the latest earnings report.

That said, the company's total net loss was largely a result of fair value adjustments on its convertible debenture liabilities. As Aphria's stock rallied heading into 2021, so did its fair value of outstanding debentures. Accounting rules require that its CFO recognize these gains on liabilities as an expense during the period. I wouldn't fret over the large \$352 million convertible debenture charge and related \$361 million net loss right now.

## Should you buy the dip on APHA stock?

[Cannabis stocks are in an extended consolidation](#) right now, and APHA's earnings miss has just amplified the trend. The U.S. legalization trade is losing momentum, and earlier speculative gains on pot names are being wiped off. Due care is necessary when initiating a new position right now.

That said, marijuana is still a promising growth business globally, and Aphria is a well-managed low-cost contender to market leadership. The company saw "all-in" costs per gram declined during the past quarter. It maintained market leadership in Ontario and recorded gains in Quebec, even as competitors up their game.

A deeper analysis is required as the company merges with smaller competitor Tilray and adopts the latter's name. Significant cost savings are being promised, but they aren't a given. The combined firm will become the largest pot firm in the world, but a conglomerate discount may be necessary. Its assets may be thinly spread across three industries, and management efficiency may weaken. We will see how things go from here.

## Foolish bottom line

The market will wait and see how Aphria Chairman and CEO Irwin will stir the combined Tilray ship going forward. While COVID-19 headwinds may have slowed down growth progress, the setbacks may be temporary for the well-financed marijuana firm.

That said, Aphria's revenue miss should trigger concerns for its not-so-great performing peers. Industry laggard **Aurora Cannabis'** stock price declined nearly 9% by mid-morning trade. The latest earnings miss could further weaken pot industry stocks this week.

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