APHA Stock: Down 55% From Record High, Is Aphria a Buy Right Now?

Description

Stocks in the cannabis space continue to remain volatile in 2021. Canadian pot stocks were trading near record highs when the country legalized marijuana for recreational use back in October 2018. However, investor enthusiasm soon turned bearish as companies were impacted by a slew of structural issues, including lower-than-expected demand, mounting losses, a thriving black market, and high inventory levels.

The sell-off was further exacerbated amid the COVID-19 pandemic, as retail stores were closed, driving consumer spending significantly lower. In November 2020, several pot stocks gained momentum after Joe Biden won the presidential race south of the border, and investors were optimistic about marijuana legalization at the federal level in the U.S.

Shares of **Aphria** (TSX:APHA)(NASDAQ:APHA) were trading at $0.75 shortly after it went public in December 2014. It soared to $23 by January 2018 and then fell to a multi-year low of $3.15 last March. Aphria stock then touched a record high of $40.93 in February 2021 and has since lost 55% in market value to trade at its current price of $18.55.

Despite high volatility in stock prices, Aphria has returned over 2,000% in cumulative gains since its IPO. Let's see if the recent pullback presents a buying opportunity for investors.

Aphria's recent quarterly results were disappointing

In the fiscal third quarter of 2021, Aphria reported net sales of $153.6 million. This reflected a year-over-year increase of 6.4% compared to net sales of $144.4 million in the prior-year period. Comparatively, Bay Street expected Aphria to post sales of $166.2 million in the December quarter.

The company also reported an adjusted net loss of $47.9 million, or $0.15 per share, marking a significant deterioration compared to an adjusted net loss of $9.8 million, or $0.04 per share, in fiscal Q3 of 2020. Analysts forecast Aphria's net loss at $0.04 in Q3 of fiscal 2021.

Aphria generates sales from distribution revenue derived from the company's CC Pharma operations in

Germany. It also sells recreational and medical marijuana products.

The company's net cannabis sales fell 24% on a sequential basis to $51.7 million while distribution revenue fell 5% to $87.1 million in Q3. These declines were attributed to lockdowns in Canada and Germany as well as lower marijuana selling prices.

What's next for investors?

While Aphria sales in Q3 were less than impressive, the company retained its pole position in Ontario and Alberta in terms of cannabis sales. It is also the second-largest pot seller in Quebec. Aphria managed to record $14.8 million in net sales from its alcoholic beverage business, and the company's acquisition of craft beer maker Sweetwater Brewing will hold it in good stead in the long term to help it gain traction in this disruptive vertical.

Aphria has posted eight consecutive quarters of positive adjusted EBITDA, and in Q3 this figure rose to $12.7 million, which was similar to its prior-year period.

The most important driver of Aphria stock is its upcoming merger with **Tilray**, which will make the combined entity the largest cannabis company in the world. Both the companies already have a presence in the U.S. and can scale production once marijuana is legalized in the country. Aphria's strong balance sheet and its ability to consistently post a positive EBITDA make it a top pick given the recent pullback.

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