

The Best Time to Get Started in Aphria Inc.

Description

Unless you've been living under a rock, you are well aware that marijuana stocks are the hot sector now. Canada's Federal Government has been very clear about its intention to legalizing recreational marijuana by July 2018. Many investors view investing in marijuana stocks now like being able to invest in beer companies prior to the end of prohibition.

But there are dozens, if not hundreds, of publicly traded companies involved in the marijuana industry. How do you pick the winners? And how do you know if you're getting in at a good price when shares in all of these companies are so volatile?

Luckily, it is apparent that **Aphria Inc.** (TSX:APH) will be one of the major winners among marijuana companies. The timing of when to buy shares might be a bit tougher, though.

The investment case for Aphria

There aren't many young companies out there that can grow the top line at triple-digit rates while also earning a profit—Aphria has found that tricky balance.

When Aphria announced third-quarter earnings results in April, management was able to proudly proclaim that it was the fifth consecutive profitable quarter for Aphria. Compared to the same quarter in 2016, Aphria nearly doubled revenue, increased cash flow from operations by over \$6 million, and earned \$0.04 per share vs. \$0.00.

Those results are all the more impressive when you consider the growth. Earning a profit this past quarter while doubling revenues is fantastic, but Aphria is likely to continue that profitable growth for the foreseeable future.

The company just received approval from Health Canada for the Phase II expansion, which triples Aphria's production capacity to 8,000 kg of medical cannabis annually. The Phase III expansion is expected to be completed by September of this year and will increase total production capacity up to 22,000 kg.

The expected date of legalized recreational marijuana coincides with the expected completion of the Phase IV expansion, which will push Aphria's production capacity to 75,000 kg. If Aphria is making money producing just 2,600 kg now, I'm excited to see how much money the company will make by growing 75,000 kg next year.

Aphria has another advantage over its competitors—diversification. Aphria owns 37.6% of Liberty Health Sciences Inc., which provides exposure to the Florida medical marijuana market, and 18.5% of Copperstate Farms Investors, which provides exposure to the Arizona market. These large states are complemented by smaller positions in **CannaRoyalty Corp.**, **Canabo Medical Corp.**, **MassRoots Inc.**, etc. Owning Aphria is similar to owning a marijuana mutual fund with the benefit of also owning a top-

notch producer.

When to buy

All of the marijuana stocks are driven by hype and news with fundamentals of the companies having little bearing on the movement of the stock prices. With that in mind, one should consider the old saying “sell in May and go away.”

During the summer, stock trading volumes drop significantly. This doesn't cause a price drop, but with less shares trading, it becomes more difficult for hype to drive share prices higher. Therefore, Aphria—and the marijuana sector in general—is unlikely to have a big run up over the summer.

It's possible that the company will announce exciting news, but most of Aphria's big catalysts are public knowledge already. The market knows how legalization is moving along, about the greenhouse expansions and about the investments in the U.S. I don't expect Aphria to surprise anybody this summer with news, and with low trading volumes, Aphria should be trading around the current price well into August.

Conclusion

The marijuana sector is exciting and has the potential to offer investors outstanding returns, and Aphria is the best investment in the sector—it's a profitable company already that is fully funded for the planned aggressive expansion. But the summer months won't be the best time to pick up shares. Park your cash somewhere else over the summer and make sure to buy Aphria before the fall.

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