



Consumer, Brands & Retail

23rd April 2019

APHRIA

| Consumer, Brands & Retail
| Cannabis

BUY

Fair Value CAD23 vs. CAD26 (+120%)
Share price CAD10.45
EPS 3Y Cagr NM

A Busy Week

Q3 FY19 disappointed

Aphria published last week Q3 FY2019 results that disappointed on revenue. In the quarter, the company sold 2,363.5kg of cannabis which is 23% lower than in Q2 and due to lower production as the company transitioned growing methods during the late fall and early winter (moving from tall plants in big pots to smaller denser plants in small pots, necessary for the new automation) as well as temporary packaging and distribution challenges. For Q4, the company is expecting these challenges to continue and in production additional space is allocated to the mother plants for the Part 4 and 5 expansion of Aphria One. Medicinal cannabis revenue for the quarter was flattish compared to the previous quarter but recreational cannabis revenue was down 35% to CAD7,185m from CAD11,032m. However, with the consolidation of CC Pharma net revenue for Q3 was CAD73.6m, compared to CAD21.7 million in the prior quarter. We have adjusted our forecasts (lowered revenue by 14%) for the year to take into account the lower production levels.

Bullish Outlook for FY20 CAD500m and FY21 CAD1bn cannabis revenues

During the results call, Aphria also issued an outlook to achieve CAD500m of cannabis revenues in FY 2020 and CAD1bn in FY2021. In our forecasts we expect cannabis net revenues for FY 2020 at CAD467m and at CAD849m in FY2021. On top of that we look for around CAD380m of distribution revenues.

German licence win confirmed

Following the conclusion of a mandatory 10-day standstill period for public contracts during which competitors could appeal, Aphria was granted a cultivation license for four of the nine total lots awarded by BfArM and is awaiting the completion of the tender process for the four remaining lots under review, one of which was provisionally awarded to Aphria Germany. Aurora Cannabis was awarded the maximum number of 5 and the 3 lots that were awarded to Demecan (JV partnered with Wayland) are not yet confirmed. The 13 licenses allow the winners to start German medicinal cannabis production. Aphria expects its 8,000 sq m indoor facility in Neumünster to be fully operational by Summer 2020 and is completing work on a GMP-certified cannabis vault in Bad Bramstedt for the import of cannabis flowers and oil from Canada and Denmark. Aphria Germany also holds a 25.1% interest in Berlin-based Schöneberg Hospital, which provides access to both doctors and patients for education on the benefits of medical cannabinoids. Earlier this month, the company launched CannRelief, a CBD-based nutraceutical and cosmetics product line for the German market, produced in the EU and distributed by CC Pharma, a subsidiary of Aphria Inc. with access to more than 13,000 pharmacies throughout Germany.

Market Data

Bloomberg / Reuters	APH CN/APH.TO
Market Cap.	CAD2,619m
E.V.	CAD2,335m
Free Float	-
Avg. Daily volume (6m)	7,979
12m high / low	CAD21.7 / CAD5
Ytd Perf.	33.1%

CADM	05/18	05/19e	05/20e	05/21e
Sales	36.9	222.7	847.1	1,229
% Change				45.1%
EBITDA	1.6	-65.7	22.6	229.9
% Change			NS	
EBIT	-12.4	-181.1	-56.6	138.0
% Change		NS	68.7%	NS
Net Income	-4.0	-87.6	-37.2	71.8
% Change		NS	57.5%	NS
ROE	0.00	-0.07	-0.03	0.06

	05/18	05/19e	05/20e	05/21e
EV/Sales	63.3x	13.3x	4.1x	3.6x
EV/EBITDA	1417.0x	NS	151.8x	19.3x
EV/EBIT	NS	NS	NS	32.2x
EPS	-0.02	-0.36	-0.15	0.29
% change		NS	58.1%	NS
P/E	NM	NM	NM	36.1x
Div Yield	NM	NM	NM	NM

Last FV Change:

[2019-3-20, Aphria One is now fully licensed](#)

Last Reports:

[2019-3-20, Aphria One is now fully licensed](#)

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Green Growth is stopping the unsolicited approach

Aphria also announced that Green Growth is stopping its unsolicited offer for Aphria on 25 April. As a result both parties entered into a series of transactions which included, Aphria dismantling the GA special purpose vehicle in which it held 27.5m shares of Green Growth (was an optionality to get back into the US). As a result Aphria will receive CAD89m of cash.

CAD300m convertible

Last week, Aphria also issued a USD300m 5.25% convertible due 2024 with an option to increase the amount by USD50m within a 30-day period.

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Fair Value	CAD23 vs. CAD26 (+120%)
Share price	CAD10.45
Market Cap.	CAD2,619m
EPS 3Y CAGR	NM

Fiscal year end 31/5	2017	2018	2019e	2020e	2021e
Financial Summary					
EPS (CAD)	0.04	0.17	-0.74	-0.32	0.10
Restated EPS (CAD)	0.00	-0.02	-0.36	-0.15	0.29
% change	-90.4%	-1791.0%	-1407.0%	-58.1%	-
FCF (CAD)	-0.37	-0.08	-1.13	-0.21	-0.15
Net dividend (CAD)	0.00	0.00	0.00	0.00	0.00
Avg. Number of shares, diluted (m)	111.43	165.91	243.93	247.68	247.68
Average yearly Price	4.88	13.77	13.71	13.71	13.71
Historical Enterprise value (CADm)	352	2114	3483	3961	4934
Valuation (x)					
EV/Sales	17.2x	57.3x	12.64x	3.38x	2.36x
EV/EBITDA	87.6x	1282.9x	NM	NS	12.63x
EV/EBIT	-253.0x	-170.1x	NM	NM	21.05x
P/E	3463.5x	-577.9x	NM	NM	36.07x
FCF yield (%)	-7.5%	-0.6%	NM	NM	NM
Net dividend yield (%)	0.0%	0.0%	NM	NM	NM
Profit & Loss Account (EURm)					
Revenues	20	37	223	847	1,229
Change (%)	142.3%	80.6%	503.3%	280.4%	45.1%
Adjusted EBITDA	4	2	-66	23	230
EBIT	-1	-12	-181	-57	138
Change (%)	-27.6%	-792.8%	-1357.2%	-68.7%	-
Financial results	1	5	0	0	0
Pre-Tax profits	-1	-7	-181	-57	138
Exceptionals	5	42	0	0	0
Tax	0	-6	0	0	-33
Profits from associates	-	-	-	-	-
Minority interests	0	0	0	-24	-81
Net profit	-1	-14	-181	-80	25
Restated net profit	0	-4	-88	-37	72
Change (%)	-81.7%	-2617.8%	-2115.7%	-57.5%	-
Cash Flow Statement (EURm)					
Operating cash flows	6	6	-66	23	230
Change in working capital	-1	-10	-9	45	-197
Capex, net	-46	-8	-200	-120	-37
Free Cash flow	-41	-14	-275	-52	-37
Financial investments, net	-156	-194	-284	0	0
Dividends	0	0	0	0	0
Capital increase	228	204	250	0	0
Other	0	0	0	0	0
Change in net debt	-32	4	309	52	37
Net debt (+)/cash (-)	-134	-113	196	248	285
Balance Sheet (EURm)					
Tangible fixed assets	72	303	492	575	567
Intangibles assets	3	749	965	965	965
Cash & equivalents	167	147	147	147	110
current assets	12	47	100	285	623
Other assets	61	67	67	67	67
Total assets	316	1,314	1,772	2,040	2,333
L & ST Debt	33	34	343	395	395
Provisions	0	68	68	68	68
Others liabilities	9	38	82	312	452
Minority interests	0	10	10	33	114
Shareholders' funds	274	1,164	1,268	1,231	1,302
Total Liabilities	316	1314	1772	2040	2333
Ratios					
Gross margin	77.6%	75.6%	20.0%	36.0%	51.0%
EBITDA margin	19.7%	4.5%	-29.5%	2.7%	18.7%
Operating margin	-2.1%	-6.3%	-39.2%	-1.6%	15.1%
Tax rate	-3.1%	-18.2%	26.5%	26.5%	26.5%
Net margin	0.8%	-10.7%	-39.3%	-4.4%	5.8%
ROE	0.1%	-0.3%	-6.9%	-3.0%	5.5%
ROCE	-1.8%	-2.0%	-13.6%	-3.6%	8.2%
Gearing	-49%	-10%	15%	20%	20%
FCF/EBIT	2941.3%	109.8%	151.7%	92.1%	-26.7%
Dividend payout	0.0%	0.0%	0.0%	0.0%	0.0%

Source: Company Data; Bryan, Garnier & Co ests.

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