

Aphria: Another TSX Stock That Could Be A Smash Hit

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About: [Aphria Inc. \(APHQF\)](#), Includes: [TWMJF](#)



Summary

Aphria is the second largest cannabis producer in Canada and is poised for explosive market growth.

APH's recent inclusion in Canadian index funds makes it more visible to investors.

Recent capital expenditures gives Aphria the facilities needed to meet growing demand.

By Michael Vodicka

Canada had the best performing stock index in the developed world in 2016. The TSX (Toronto Stock Exchange) index delivered a total return of 18.26%. That was a 34% premium to the S&P 500's total return of 13.59%.

This awesome performance was driven by a newly-listed TSX stock. On July 26, Canopy Growth Corp ([OTCPK:TWMJF](#), TSX:WEED) became the first-ever cannabis company to be listed on the TSX Index. The listing generated huge interest from investors eager to cash in on the high-growth medical cannabis industry.

Since the listing, shares of Canopy have gained 186%, making it the one of the best performing stocks on the entire TSX Index. I [wrote about CGC](#) on November 1, telling investors to pay attention. Since my article was published, Canopy has risen 81%.

If you missed out on those big returns, don't worry. I see that same pattern unfolding again. Canopy is about to be joined on the TSX Index by a second cannabis company.

Aphria (OTCQB:APHQF, CVE:APH) is the second-largest medical cannabis company in Canada with a market value of \$591 million. Shares of Aphria are currently traded on the Toronto Venture Stock Exchange, a subsidiary of the TSX that allows smaller companies to access public capital.

Just like Canopy, Aphria has been on a roll. Shares are up 452% in the last 12 months. Take a look below.



Despite those outsized gains, I see an important short-term catalyst that I believe will propel shares to a new all-time high. With investors across the world clamoring for access to cannabis stocks, Aphria is set to join Canopy Growth Corp as the second medical cannabis TSX stock.

I expect this uplisting to be great for Aphria's share price for two reasons.

Aphria Will Be A Component Of Most Canadian Index Funds

Up-listing to the TSX Index will make Aphria a component in most Canadian index funds.

This is important. Any time a billion-dollar fund manager or individual investors purchases a Canadian index fund, such as iShares MSCI Canada (NYSEARCA:[EWC](#)), they will be buying shares of Aphria.

Canada's stock market is hot right now. With energy rebounding, Canada's resource driven economy is back in high gear. I am expecting fund managers to dump billions into TSX stock buys throughout 2017. Aphria's share price would directly benefit from those inflows.

The up-listing will also put the spotlight on Aphria's amazing growth.

Aphria Is Building A 1 Million-Square-Foot Cultivation Facility

Aphria is cashing in on the high-growth legal cannabis industry. Second-quarter revenue was up 157% from the same period last year to \$5.2 million. Net income jumped to \$946,000 from a loss of \$432,000 last year.

Looking forward, I am expecting more big-time revenue growth. Aphria just finished step two in a four-step expansion project to build a 1,000,000-square-foot cannabis cultivation facility. Part three is now underway, a \$25 million investment to add another 200,000 square feet of cultivation capacity. This stage is set to be completed in the spring of 2018.

The final phase, phase four, is a \$137 million investment to add another 700,000 square feet of production capacity. This portion of the project has yet to be funded and would be scheduled to go online in the spring of 2019.

When you add it all together, Aphria has laid the groundwork for a 1 million-square-foot cultivation facility capable of producing 70,000 kilograms of dried cannabis every year.

The expansion project comes at an ideal time. Medical cannabis is already legal in Canada. Now, recreational could be right around the corner. Canadian Prime Minister Justin Trudeau has laid the groundwork for a potential vote on legalizing recreational use this spring.

If recreational gets approval, early estimates suggest it could add between one and four million users to Canada's legal cannabis market. That would be

a huge windfall for the entire industry and particularly for Aphria with its rapidly growing cultivation capacity and customer base.

Risks To Consider: Aphria has posted huge gains. Shares are up 446% in the last 12 months. Although I am not expecting a big pullback, shares look a little overbought in the short run.

Action To Take: Aphria is set to become the newest TSX stock in the growing cannabis sector. I am expecting that to trigger new capital inflows and lift shares to a new all-time high in 2017.

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