Why Aphria Inc. Is Down More Than 10% Today

Description

Aphria Inc. (TSX:APH) has seen its shares fall off a cliff in trading on Tuesday as multiple news items sent the stock reeling. I'll take a close look at what has caused the shares to tumble and if it might be a good time for opportunistic investors to buy on the dip.

Aphria announced an $80 million bought deal

The company announced that it would seek to raise $80 million by issuing over 11 million shares at a price of $7.25 through Clarus Securities Inc. There is a further option to purchase an additional 1.6 million in shares, which would mean proceeds for Aphria could total more than $92 million.

Why this is good for Aphria

Aphria will benefit from the offering simply because it will be able to raise money for infrastructure and expansion without having to use its cash or raise costly debt. Aphria's debt-to-equity ratio as of its most recent quarter was just 0.11, and another $92 million would have almost quadrupled its debt and raise that ratio to 0.43. Although that would still not be a lot of debt on its books, in a rising-rate environment and with potentially more cash needed down the road to fund the new and growing industry, it's understandable why Aphria did not want to go down that route just yet.

Why this is bad for shareholders

When a company issues additional shares, this effectively dilutes the existing shareholders; their ownership will now be a smaller portion of the company. However, this is not new territory for Aphria. In just one year, its shares grew from 90 million outstanding to 139 million — an increase of 54%. Adding nearly 13 million shares will represent just a 9% increase to the shares outstanding today.

TSX threatens to delist marijuana stocks not in compliance with U.S. laws

On Monday, the TSX released a notice stating that marijuana companies that are not following U.S. laws are not in compliance with the exchange's listing requirements and could be delisted. Although marijuana is legal in many U.S. states, it is still illegal at the federal level, and that is what will take precedence. Aphria, which, earlier this year, announced an investment in Florida, could be at the forefront of this issue. However, the release was not very definitive and still leaves a lot of uncertainty about if Aphria will be impacted.

What does all this mean for investors?

The threats from the TSX might be intimidating, but news of Aphria investing south of the border is not new, and so I find it unlikely that this has suddenly become a problem for the exchange. However, it is an important issue that needs to be clarified, and other companies, like **Canopy Growth Corp.**, are certainly looking at what (if any) impact this might have on their future expansions. Lawyers for Aphria have undoubtedly been combing over the laws to see what is and is not allowed in this emerging market, and at this point, there's no reason to see any imminent danger to the company.

The bought deal is likely weighing on investors more, and although that may dilute current shareholders, it doesn't make the stock any worse of an investment today, and that's why it could be a great buy.

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