



Why Cannabis Investors Should Expect More Mergers and Acquisitions

Description

Aurora Cannabis Inc. ([TSX:ACB](#)) recently announced its plans to acquire **CanniMed Therapeutics Inc.** ([TSX:CMED](#)) in an all-stock takeover. Initially, Aurora had made a proposal to CanniMed's board of directors with a November 17th deadline. However, with the deadline having come and gone, Aurora has now made a formal takeover offer.

Aurora's CEO, Terry Booth, believes the companies would be a "great fit, truly complementary, and I am convinced we can generate even greater value by combining the two companies and aligning our efforts strategically."

With a combined market cap of about \$3 billion, the companies would seek to rival the biggest player on the Cannabis scene, **Canopy Growth Corp.** ([TSX:WEED](#)), which has a market cap of \$3.5 billion.

However, CanniMed was unimpressed with the proposal. Before the takeover offer, CanniMed entered an agreement to buy **Newstrike Resources Ltd.** ([TSXV:HIP](#)), a cannabis stock on the venture exchange that is backed by the iconic Canadian music group, the Tragically Hip.

Cannabis companies are still relatively small

At market caps of just \$3 billion, whether the takeover goes ahead or not, both Canopy and Aurora are still only classified as mid-cap stocks, with \$10 billion signifying a big-cap company. There are plenty of successful mid-cap stocks that are good buys, but when the industry leaders are in this range, that suggests there might be bigger players out there, and more consolidation could take place.

Lack of moat is [one problem](#) I see in the industry, where a big player could enter the cannabis market at a later date and acquire companies like Canopy and Aurora. A lot of legal uncertainty is keeping many big players on the sidelines, and that could change as more issues are sorted out and we get closer to legalization day.

Why consolidation in the industry is inevitable

We've seen a lot of new cannabis stocks get listed on the TSX and the venture exchange in the past

year. Canopy has already been in acquisition mode, trying to extend its reach, and with a lot of small suppliers in the industry, there is a lot of potential for larger companies to easily grow their market share via acquisition.

In a fragmented industry like cannabis, it's not uncommon to see lots of consolidation.

Why you may want to wait before investing in cannabis stocks

Cannabis stocks are [growing very fast](#), and there's a danger that valuations could be getting too high. The new industry is seeing many new entrants, and even Aurora has only been on the TSX since July. There's a lot of change in the industry, and with legalization still more than half a year away, the landscape could look a lot different from where it is at today.

From a valuation standpoint, there certainly aren't any deals to be had at these prices. Although it may be tempting to jump on board, so you don't miss the ride, at this point, there looks to be more risk that valuations are inflated and could be due for a correction.

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Date

2025/08/19

Date Created

2017/11/26

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