



Aurora Cannabis Inc. Stock Sheds 16% in 5 Days: Buy the Dip or Bail Out?

Description

Decision making can be challenging on a highly volatile stock, but marijuana investors have to make some hard choices at times, especially after **Aurora Cannabis Inc.** ([TSX:ACB](#)) insiders offloaded stock after launching a hostile takeover bid for **CanniMed Therapeutics Inc.** (TSX:CMED), and the stock took a 16.5% hit in five trading days.

Aurora stock has plunged from \$8 a share on November 30 to \$6.68 at the time of writing on December 7, and the loss could be higher if we consider the intraday low of \$6.31 on Thursday.

It may be very surprising that Aurora insiders made significant stock sales during a sensitive takeover deal, as the move could be read as a lack of confidence in the price-retention power of Aurora's stock after the [sudden rise in the share price](#) from \$3 on October 30 to \$8 on November 30 — a 167% massive gain in just four weeks.

Four senior executives, including Aurora's CEO, decided to offload some 2,171,670 shares on the open market for gross proceeds of over \$17.8 million on November 28, and CanniMed was quick to comment on the action on November 30 with very damaging results for the stock.

The timing of insider sales was very peculiar, as Aurora management had just launched a significant all-stock hostile bid on a seemingly high-quality company just after Aurora stock had spiked sharply, and when CanniMed shares were still to respond to the current generally positive sentiment in the cannabis sector.

CanniMed management managed to make a pounce on Aurora stock's valuation, using the action as another highlight to CanniMed shareholders why they shouldn't entrust Aurora management with their stock market investment future and urging them to take no action in Aurora's current offer.

Moreover, the earlier defensive tactics from CanniMed, which had decided to take another poison pill by announcing a shareholder rights issue to deter Aurora from proceeding with the hostile takeover bid, had already shaken Aurora shareholder confidence, and the resultant profit-taking moves could be a natural result.

Is the CanniMed deal a non-event?

Pre-takeover defences are usually much more effective than any defensive moves after a takeover bid has already been launched. The takeover bid can be challenged through litigation.

The hostile bidder can challenge post-bid defensive action as not in the shareholders' best interests and as inhibiting shareholders from freely declaring their informed choices, as Aurora has already threatened to do after the announcement of the rights issue by CanniMed directors.

The deal still precariously hangs, and ultimately, it is CanniMed shareholders who may decide its fate.

As a small positive though, the TSX has deferred consideration of the acceptance of CanniMed's announced shareholder rights plan until such time as the TSX is satisfied that the Ontario Securities Commission will not challenge the plan, and the rights plan has been ratified by shareholders till May 28, 2018.

Aurora has the blessing of major CanniMed shareholders who entered a lockup deal supporting the takeover, and therefore just needs another 28.67% vote to win.

However, CanniMed only requires a 50 % majority vote to endorse its **Newstrike Resources** takeover, which may result in Aurora walking away.

Time to take some profit?

The current volatility in marijuana stocks could easily cause some investors to develop hypertension. There is potential for long-term growth, but there is also a very high chance for a bloody stock price correction after the recent massive jump in Aurora valuation.

It wouldn't be so bad to lock in some profit on Aurora shares, but it's at the expense of losing out on another rally should the current takeover bid for CanniMed finally strike through.

There is a big chance that the hostile bid could end up in a negotiated friendly merger on revised terms as CanniMed is currently evaluating Aurora's offer, while there seems to be a stalemate as far as the hostile takeover and defence tactics are concerned so far.

That said, liquidating some portion of an Aurora investment up to, say, initially invested capital may just be prudent as [massive price corrections](#) do happen in the cannabis space.

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