



Will Aurora Cannabis Inc. Be Successful in Acquiring Cannimed Therapeutics Inc.?

Description

Earlier this month, **Aurora Cannabis Inc.** ([TSX:ACB](#)) announced its intention to acquire **Cannimed Therapeutics Inc.** ([TSX:CMED](#)). When Cannimed showed no interest, Aurora upped the ante and looked to acquire the company through a [formal takeover offer](#).

Although Aurora's offer of \$24 a share is a 20% premium over what Cannimed currently trades at, it hasn't seemed to get much traction. One reason is that the offer is all-stock and means that Cannimed investors will simply receive shares of Aurora rather than cash.

The concern for Cannimed shareholders is whether or not Aurora's stock is worth its current share price, which has risen over 170% in just the past three months.

Are cannabis stocks overpriced?

Cannimed's CEO Brent Zettl referred to the offer as being financed with "Monopoly money," alluding to Aurora's high valuation. With a price-to-sales ratio of more than 100 and a price-to-book ratio of 11, Aurora's stock is currently valued at a hefty premium.

However, this is indicative of where the industry is today. Cannimed is also a bit expensive with a price-to-book multiple of five and investors paying nearly 25 times the company's sales.

In the cannabis industry, it is increasingly difficult to determine what fair value for a stock is, because so many companies have seen their share prices take off recently. We are dealing with a new and emerging industry that will see tremendous growth potential, but it will also face significant challenges that shouldn't be ignored, either.

Currently, investors are in the honeymoon phase and have not been bothered by whether cannabis stocks have been profitable or not (most haven't been); investors have been in a frenzy over how much sales will grow when marijuana is legalized.

Sales will undoubtedly continue to grow for many cannabis stocks, but investors need to be careful, as

enormous growth potential has already been priced in to these high valuations. There are many variables to consider, and cannabis stocks have been very sensitive to news and developments in the industry.

Are we seeing a big cannabis bubble begin to form?

Zettl referred to Aurora's business as a "house of cards" and believes that **Newstrike Resources Ltd.**, which Cannimed has made an offer for recently, is a better fit and will add value for shareholders, unlike the bid from Aurora.

Although Zettl might be right about Aurora being overvalued, I would argue that most cannabis stocks, including Cannimed, are trading at [big premiums](#) and could see significant corrections if growth falls short of expectations.

What should investors do?

Although cannabis stocks offer significant growth potential, these are not investments that are suitable for risk-averse investors. Both Aurora and Cannimed have seen their share prices skyrocket since this bid was announced, and both might come down in price if the deal falls through.

At this point in time, investors might be better off waiting for a drop in price before buying either stock. Both of these stocks will react strongly to whether the deal goes through or not, and although that presents a significant opportunity, it also exposes investors to a great deal of risk as well.

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