



Why Aphria Inc. Is My Least Favourite TSX-Traded Marijuana Stock

Description

I'm not a fan of **Aphria Inc.** (TSX:APH) despite its clear industry-leading fundamentals in the early stages of the nascent marijuana industry. Although Aphria has received praise from fellow Fool contributors [Chris MacDonald](#) and [Jason Phillips](#) for being a low-cost operator with above-average fundamentals versus industry averages, I'm very paranoid about the negative implications from Aphria's U.S. assets.

As you may be aware, Aphria's U.S. assets are technically considered illegal, as cannabis is still not decriminalized at the federal level. Because Aphria isn't complying with U.S. law, many investors are worried that the stock could suddenly become delisted from the TSX. Although Aphria CEO Vic Neufeld is committed to protecting Aphria's shareholders, I believe the potential for a rushed U.S. asset liquidation may end up destroying value for longer-term shareholders.

I also believe that Neufeld is downplaying their concerns. The potential implications may be [more insidious](#) than what the general public is expecting, so I'd advise caution for those who favour Aphria as their top marijuana pick.

Nobody really knows how long Aphria has to get rid of its U.S. assets in order to fully comply with U.S. law. And even if we did, it's likely that Aphria could dispose of its U.S. assets for next to nothing!

Valeant Pharmaceuticals Intl Inc. (TSX:VRX)(NYSE:VRX) was in a similar predicament as it entered divestiture mode over a year ago; however, Aphria's timeframe for such divestments is likely a lot shorter than that of Valeant's.

Valeant was scrambling to pay back its debt obligations, and Aphria is in a divestiture rush in order to comply with standards that'll allow its stock to continue to be traded on the TSX exchange. As of right now, there's very little visibility. If I were an investor, that would make me really paranoid! What are the real implications of a TSX delisting? How long does Aphria actually have to get rid of its U.S. assets? Is there a workaround? Are investors in any danger?

These are all questions that give rise to another layer of uncertainty that appears to be unique to Aphria when you consider the big four TSX-traded marijuana producers.

The solution is simple. Just buy one of the other three Canadian producers in **Canopy Growth Corp.** ([TSX:WEED](#)), **Aurora Cannabis Inc.** ([TSX:ACB](#)) or **MedReleaf Corp.** (TSX:LEAF). Why anyone would want an extra layer of uncertainty in an already uncertain and speculative industry is anyone's guess. I think Aphria investors are either too hopeful or they're too high on Aphria's exceptional fundamentals, which really stand out.

Personally, I think the superior fundamentals mean very little at this stage. While Aphria's management team has done an impeccable job thus far, I believe the potential for a delistment outweighs the benefits of the company's top-notch fundamentals in the early stages of an evolving industry.

Bottom line

For branding and longer-term prospects, I prefer Canopy and MedReleaf for the recreational and medical markets, respectively. And for nearer-term catalysts, I prefer Aurora. Right now, Aphria has a huge headwind that's just another added risk in an already dangerously risky industry.

Also, a word of warning.

Although I'm a fan of the growth prospects behind cannabis producers, I'm not at all a fan of the valuations after the exponential run-up. At these prices, it looks like you're paying up for two or even three years' worth of growth. The valuations are ridiculous, and I wouldn't recommend owning any cannabis stocks until the industry experiences a correction, which I believe it will this year. So be patient and make sure you have cash on hand.

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