



## Aphria Inc. Is Uglifying Itself With Absurdly Expensive Acquisitions

### Description

The cannabis market in general is a very dangerous place to be right now. Last year, pot stocks were driven by political developments, supply deals, and partnerships with foreign firms, but now pot stocks are being propelled higher by M&A activity, as the bigger producers look to consolidate the industry to prepare for years of what many believe is overwhelming demand for legal cannabis.

There are still a tonne of unforeseen obstacles that could stand in the way of Canada's top cannabis producers, and at current valuations, I'd advise investors take a rain-check and come back after a 50-60% correction, which I think is extremely probable this year.

**Aphria Inc.** (TSX:APH) is my least favourite Canadian cannabis stock for many reasons. Despite possessing the most efficient operations and the best fundamentals in its industry, there are a lot of other insidious traits that I believe will haunt investors who fail to look past the "incredible fundamentals" at the very early stages of an emerging industry.

First, Aphria has U.S. assets, which could affect its ability to trade on the TSX. That is, of course, until the company decides to dispose of its U.S. assets before some unknown deadline, which may or may not exist at this point in time.

What are the implications of a delisting?

Nobody knows, but CEO Vic Neufeld has downplayed the matter, which I think is a cause for concern, especially since he may be putting investors at risk from the severe lack of transparency. At this point, Neufeld may be favouring the divestment of the U.S. assets; however, I think it'll be a tough sell, especially given Aphria's vulnerable position. It's clear that the buyer will have most, if not all, of the bargaining power should a deal be made, and that's bad news for Aphria shareholders.

Fellow Fool contributor [Will Ashworth](#) noted that Aphria may be better off ditching the TSX for an alternative exchange like Canadian Securities Exchange, where there are ample marijuana firms. This may be a better move, but I doubt this is will be the route it'll end up taking.

Second, Aphria has been wheeling and dealing a lot lately at a time when many analysts and Fools,

including me, believe that the entire cannabis market is in a bubble. In a previous piece, I mentioned my distaste for Aphria's [Broken Coast acquisition](#) for \$230 million, and Nuuvera Inc. was scooped up just a few weeks later for \$826 million.

Nuuvera is a great grower that provides Aphria exposure to Europe, Africa, and the Middle East, but the 21% premium that was paid makes me cringe, and it brings back memories of **Valeant Pharmaceuticals Intl Inc.** and its greed-fueled acquisition spree.

The recent deal makes it look like Aphria is making moves to "keep up with the Joneses," where **Aurora Cannabis Inc.** ([TSX:ACB](#)) is Mr. and Mrs. Jones. Aphria's Nuuvera deal was announced just days after Aurora's \$1.1 billion acquisition of **CanniMed Therapeutics Inc.**

Clearly, the market is valuing these smaller cannabis firms ridiculously high, but I suspect they won't be worth nearly as much as we head into the latter part of the year. Aurora's CanniMed deal severely dilute shareholders, and I fear this could be just the start of further deals that will dilute shareholders to death.

### Bottom line

There are a tonne of differences between Aurora and Aphria versus Valeant (like differing debt levels). But one thing they have in common is the trigger-happy nature of acquisitions, which could be coming at a fast and furious rate over the next few months. I personally believe such deals may be sacrificing long-term shareholder value in favour of shorter-term results.

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