Aurora Cannabis Inc. and Tucows Inc.: Should You Bet Against Short Sellers?

Description

The S&P/TSX fell 121 points on March 19. The top indexes in the United States were throttled as **Facebook Inc.** shed more than $40 billion of market cap following a significant data scandal pertaining to the 2016 U.S. election. Recent short interest data collected in mid-March suggests that the cannabis industry will continue to be a target of short sellers as we look ahead to the spring and summer. This should make for an interesting dynamic ahead of recreational legalization.

In late 2017, Canadian regulators vowed to fight back against "short-and-distort" campaigns from short sellers. **Shopify Inc.** (TSX:SHOP)(NYSE:SHOP), the Ottawa-based e-commerce company, was targeted by Citron Research and short seller Andrew Left in October 2017. The campaign, which asserted that Shopify's valuation was inflated and its business model predicated on "get-rich-quick" schemes, drove Shopify stock below the $115 mark. It has since rebounded, and the stock closed at $190.36 on March 19.

Today, I want to look at two stocks that have been targeted by short sellers of late. One was the sole subject in a targeted campaign, and another has grown into one of the most expensive shares to borrow on the TSX. Should you add either of these stocks to your portfolio today?

Aurora Cannabis Inc. (TSX:ACB)

Aurora stock dropped 1.37% on March 19. Shares are still up 14% in 2018 thus far. However, the high borrowing cost for its shares indicate that investors are growing increasingly bearish on Aurora going forward. Shares peaked at $15.20 in late January after Aurora completed its expensive merger with CanniMed Therapeutics Inc.

In February, Aurora also announced a supply agreement with Shoppers Drug Mart and acquired a 19% stake in **Liquor Stores N.A. Ltd.**, which gives the company access to its retail network in Western Canada. Cannabis stocks soared to unprecedented heights in late 2017, and even the most optimistic projections have laid out a mixed picture for Canadian cannabis heading into recreational legalization. Investors should anticipate volatility for Aurora going forward.

Tucows Inc. (TSX:TC)(NASDAQ:TCX)

Tucows was the target of a short-selling campaign from Copperfield Research, a small financial research organization. Tucows stock peaked at $89.78 entering the new year before dropping sharply in the first week of January.

Shares have declined 15.8% thus far in 2018. However, there is reason for optimism going forward. The company released its 2017 fourth-quarter and full-year results on February 14.

Tucows delivered record revenue and net income in 2017. Leadership is confident that the recent acquisition of Enom, a Kirkland-based domain registrar, has further solidified Tucows as the second-largest domain registrar in the world. The company projections that acquisition synergies should contribute $5 million growth to annual EBITDA by fiscal 2019. Tucows was a volatile stock in 2017, with a 52-week price ranging from $60.01 to its all-time high of $89.78. Its promising growth trajectory heading into fiscal 2018 makes it an enticing buy-low candidate.

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