

Should Investors Stay Away from Aphria Inc.?

Description

Aphria Inc. (TSX:APH) has been a troubled stock this year, and negative press around its recent acquisition isn't doing the company any favours. A recent report by *The Globe and Mail* claimed that many high-ranking executives, including Aphria CEO Vic Neufeld, owned shares in Nuuvera Inc., although he never disclosed those positions publicly.

In response to the criticism, Neufeld has dismissed the issue, saying that it was immaterial and that there was no requirement to make any disclosure, which was confirmed by the Ontario Securities Commission (OSC).

Aphria technically did nothing wrong, so why does this matter?

While the company followed the regulations outlined by the OSC, it's yet another example of Aphria continuing to walk the line as far as what's legal and what's not. The company came under pressure last year as a result of its U.S. investments in marijuana. Although it initially dismissed those concerns as well, [it did eventually divest some of those holdings](#).

The problem with the Nuuvera deal is that many saw the price as a big overpayment for a company that was a minor player in the industry. Neufeld disagreed with this as well, saying, "I'm appalled that people would believe Nuuvera isn't worth what we paid for it."

However, when you're paying over \$800 million for a relatively unknown company in the industry, you're bound to face a lot of questions about it, especially when **Aurora Cannabis Inc.** ([TSX:ACB](#)) didn't pay a whole lot more [for a much more established brand](#).

Cannabis companies continue to look globally as a way to expand

Admittedly, the market for cannabis is just not that big in Canada. The only way for Aurora and Aphria to justify their sky-high valuations is by looking outside the country for growth prospects. **Canopy Growth Corp.** ([TSX:WEED](#)) has also secured positions in Jamaica and other parts of the world.

The danger here is that investors shouldn't take it as a given that pot will just flourish internationally. While pot may be popular in North America, that's not necessarily the case in other parts of the world. It also won't be easy to implement and coordinate operations thousands of kilometers away, and it's a costly strategy to undertake.

Are declining cannabis stocks creating great buying opportunities for investors?

In 2017, we saw valuations of many pot stocks catapult beyond reality, and this year we're seeing some of that hype come back down to earth. Despite what Aphria's CEO may be telling himself, investors are saying something else: year-to-date, the stock is down around 40%, and with the share price trading at 80 times its sales, the stock could well decline further.

Aurora has declined more than 5% in the first three months of trading, while Canopy Growth has been able to stay out of the negative – for now.

However, even after big declines in value, pot stocks are still grossly overvalued and investors should consider how much substance is behind the hype, and whether the risk is warranted.

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