Why Aphria Inc. Stock Is Not the Pot Stock to Buy

Description

The cannabis market has largely been dominated by three players; **Canopy Growth Corp.** (TSX:WEED), **Aurora Cannabis Inc.** (TSX:ACB), and **Aphria Inc.** (TSX:APH). Although the top three have largely remained unchanged, Aphria's grip on third place is slowly slipping away. Why are smaller marijuana companies catching up?

Underperformance

First and foremost, Aphria has been significantly underperforming its peers. Over the past year, the company's share price has gained approximately 28%. If the cannabis market weren't a high-flying growth market, this would be nothing to scoff at. However, the Canadian Marijuana Index returned 77% over the same time frame. Likewise, the two largest players on the index, Canopy and Aurora, have posted triple-digit returns over the past year.

In 2018, the results don't get any better. The Marijuana Index has retreated approximately 27% over the past three months — a healthy correction after a significant run-up in late 2017. However, Aphria underperformed yet again, losing approximately 44% of its value. This is more than double the average loss of Canopy and Aurora.

U.S. operations

In October, the TSX warned companies that those with business activities that violate U.S. federal law regarding marijuana could find themselves delisted from the index. After multiple meetings with TSX officials, the company announced in December that it was reducing its exposure to medical cannabis in the U.S. in states where pot remains illegal under federal law.

Although its listing is currently not in jeopardy, Aphria's U.S. exposure could become an issue if it's unable to act quickly. Similarly, **Toronto Dominion Bank's** (TSX:TD)(NYSE:TD) wealth management team has taken the unprecedented step to limit client exposure to pot stocks. TD is prohibiting its portfolio managers from recommending most marijuana companies and exchange-traded funds. As it stands, there are only three pot stocks advisors can recommend and proactively buy on behalf of clients. Aphria is not one of them. TD's Wealth Management unit accounts for approximately 12% of the high-net-worth market. Like it or not, it will have a negative impact on the liquidity of non-approved pot stocks.

Insider activity

Despite its downward trend, the company has little insider activity. There hasn't been a single purchase on the open market by insiders since late October, just before the boom. If the company is trading at cheap valuations, wouldn't insiders take advantage of the dip?

Aphria management has also come under fire after seven insiders failed to disclose they had a stake in

Nuuvera prior to its acquisition. The revelation came days after a short seller blasted the company for overpaying for Nuuvera. The result? These insiders benefited from a multi-million-dollar windfall. This unscrupulous insider activity has not gone unnoticed.

Worst of the top three

The pot sector is under significant scrutiny, and Aphria's recent performance has left much to be desired. Management has made some questionable decisions, and its underperformance as compared to its peers cannot be ignored. Investors looking to invest in pot stocks had best look elsewhere.

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