

Why Aurora Cannabis Inc. (TSX:ACB) Could Skyrocket Like a Bat Out of Heck

Description

I, like many others, have been incredibly bearish on the shareholder-dilutive acquisition spree that **Aurora Cannabis Inc.** ([TSX:ACB](#)) has been on of late.

The price tags attached to some of Aurora's recent scoop-ups appeared to have been self-destructive moves that stood to hurt long-term shareholders due to the absurd multiples paid at a time where the industry was rocketing to all-time highs.

Indeed, it seemed like Aurora was "paying a dollar to get a dime," and as a result, many investors ditched the stock to the curb in favour of its rivals like **Canopy Growth Corp.** ([TSX:WEED](#)), a pot producer that's stood pat on the M&A front of late.

Although it looks like Aurora's management team is recklessly acquiring anything it can get its hands on without a clear trajectory, I think the general public ought to take a step back and consider the bigger picture of what Aurora's actually trying to do. While it's certainly a possibility that [Aurora is becoming a Valeant Pharmaceuticals Intl Inc.](#) (TSX:VRX)(NYSE:VRX) under its ex-CEO Michael Pearson, one ought to consider both sides of the coin in order to weigh the real risk/reward trade-off you're getting with Aurora stock.

Many pundits have attempted to justify the rich multiples that Aurora's paid for CanniMed Therapeutics Inc. and **MedReleaf Corp.** Most notably, fellow Fool contributor Will Ashworth claimed that larger cannabis firms are more than willing to pay up for "talent," a view that another Fool contributor, Chris MacDonald, quickly shot down as, noting that the \$5-21 million per employee going rate made ["no sense at all."](#)

While it may seem that Aurora's consolidating its industry with a complete neglect for value, I think management has a plan that could catch everybody off-guard, especially the shorts who are convinced that Aurora has shot itself in the foot with its poorly-timed consolidation efforts.

Many pundits are calling for a consolidation of the marijuana industry over the next three years or so. That's pretty much a given, and although the real winner may be the firm that scoops up the most deals at the best prices, Aurora appears to just want to buy its way to the top in order to ready itself for the profound cannabis supply shortage come legalization day slated for October 17, 2018.

Is buying your way to the top really going to work out?

It's a risky strategy on the surface, but the upside is equally if not more profound.

Consider that alcohol firms stand to be threatened by the legalization of recreational marijuana.

In select markets where pot has already been legalized, it's been shown that marijuana and alcohol are substitutes for one another. Although some may find that each intoxicating substance complements each other well, a majority of folks would rather enjoy one drug at a time.

Alcohol firms like **Constellation Brands Inc.** ([NYSE:STZ](#)) have recognized the threat of legal weed, which is the reason why it's hedged itself with a 10% stake in Canopy early-on in the game, which has swelled in value! But more remarkably, Constellation has the opportunity to initiate an even larger stake in the company at some point down the road. And as the cannabis industry matures, I think Constellation will buy the entire company.

Molson Coors Brewing Company ([NYSE:TAP](#)) has reportedly been talking to Canadian cannabis firms regarding future collaborations. Cannabis-infused beverages appear to be a meaningful growth opportunity for the alcohol firm that's seen sales plummet of late.

While Aurora seems like a dangerous speculation, I believe the company is buttering itself up as a near-term takeover target. Alcohol behemoths possess the financial capacity to loosen up the purse strings for such pot firms, so I think the potential premium should a deal be reached will be profoundly higher than the sum of the premiums that Aurora paid for its shareholder-dilutive acquisitions.

I've been both a bull and a bear on Aurora in the past, changing my stance depending on recent industry developments. With recent alcohol-pot firm discussions going on, I'm now a raging bull on Aurora and would encourage investors to buy the stock while it's depressed today before it takes off.

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