1 Reason Why Aurora Cannabis Inc. (TSX:ACB) May Actually Be a Fantastic Bargain

Description

Aurora Cannabis Inc. (TSX:ACB) was the hottest marijuana stock late last year, as shares skyrocketed in the latter half, only to plunge in the new year as the firm continued buying its smaller competitors at questionable multiples like it was going out of style.

Many pundits, including me, harshly criticized Aurora for its shareholder-dilutive M&A spree, but after losing half of its value at a time when fellow rival **Canopy Growth Corp.** (TSX:WEED)(NYSE:CGC) continued to surge. It may be time for bargain hunters to jump back on the Aurora bandwagon, as the general public may be overreacting to Aurora's roll-up strategy.

As it stands, Aurora is one of the highest-risk plays in an already risky and volatile nascent industry, even after the decline. When you consider that shareholder dilution will only stand to get worse should convertible debentures be exercised, most investors have decided that Aurora pales in comparison to Canopy, whose CEO Bruce Linton recently took shots at the recent rounds of M&A activity that's been conducted within the industry.

With ambitious organic greenhouse projects like Aurora Sky and Aurora Sun in the cards, why would Aurora pay a massive and cringe-worthy premium?

While one could argue that all valuations within the cannabis industry are nonsensical and that Aurora is ruining its chances to become Canada's largest pot firm by market cap with such value-destroying deals, I think investors ought to take a step back and consider macroeconomic trends.

There's no question that the legalization of cannabis is going to cause a profound disruption to various industries. That's a major reason, I believe, that all other G7 nations have faced substantial resistance when the idea of legalizing weed comes up.

On one side of the coin, legal weed will give a national economy a huge jolt, as new entrants rush in to capitalize on the “green rush.” Governments can reap the rewards from the increased tax revenues, as the black markets will end up surrendering their slice of the pie.

On the other side, you’ve got firms that stand to lose from the lifting of the prohibition of legal weed and the advancement of research into various therapeutic applications of cannabinoids.

Alcohol, tobacco, and pharmaceutical industries may begin to feel the effects of legal Canadian weed as soon as next year, and that’s why major alcohol firms have begun to take interest in Canadian marijuana producers.

Constellation Brands Inc. (NYSE:STZ) has secured a ticket to the pot industry in the early stages with a partial (~10%) stake in Canopy — an incredibly smart hedging strategy that will allow the firm to stand out from its peers. The only thing, I believe, stopping Constellation (and its peers) from buying the entire company (it certainly has a large enough wallet) is the fact that marijuana remains illegal at the federal level in the U.S.

We’ve seen **Aphria Inc.** (TSX:APH) get into trouble because of its U.S.-based assets that were technically considered “illegal.” With a U.S. firm taking a partial stake in a Canadian pot firm, however, there’s nothing illegal about this, but even if regulations concerning marijuana investments were to change, Constellation’s stake can be easily sold.

Alcohol and tobacco can be seen as substitute goods through the eyes of consumers. Most would prefer to consume just one drug at a time, and given the fact that marijuana is profoundly less harmful than either alcohol or tobacco, it’s in the best interest of consumers to make the shift to pot and stick with it indefinitely.

Moreover, big pharma is going to take a major hit on the chin, as the demand for its high-margin pills, which treat a wide range of ailments that cannabis can alternatively treat in a healthier fashion, plummet in markets where weed is legal.

You can probably see where I’m going with this.

Aurora is consolidating the industry at a rapid rate, and in spite of its questionable valuation, it remains an incredibly attractive target for firms within disrupted industries that will be scrambling to hedge themselves or risk suffering a permanent dent to their top lines.

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joefrenette