



Latest Canopy Growth Corp. (TSX:WEED) Deal Rescues Aurora Cannabis Inc. (TSX:ACB) Stock

Description

At times, self-interested rational economic persons do generate some positive externalities while working for their private benefit, and those positive economic gains may go on to benefit the whole community.

The latest high value deal announcement from leading marijuana giant **Canopy Growth Corp.** ([TSX:WEED](#))(NYSE:CGC) is one such deal that, among another bullish Ontario cannabis policy review news pieces, has lifted the stock prices for the whole cannabis sector and had its waves felt on the TSX, the New York Stock Exchange, NASDAQ, the CSE and the TSXV.

You may have already guessed the deal I am referring, and you might have guessed right. It's none other than the Wednesday announcement of the market-shaking [\\$5 billion investment](#) by world alcoholic beverages giant **Constellation Brands** into Canopy Growth at a staggering \$48.60 per share, which was a 51% premium to the stock's previous closing price on Tuesday.

Constellation Brands had already been an important shareholder in Canopy after scooping a 10% stake in the world's largest listed marijuana stock last year, which was a big deal. The subsequent high level participation by Constellation's affiliate in Canopy's oversubscribed \$600 million convertible debenture offering this year was a strong indicator that the beverage giant was keen on increasing its interest in Canopy.

News of the latest Constellation/Canopy deal was so bullish on the whole marijuana sector that it lifted shares of most listed cannabis stocks, with shares of close rival **Aphria Inc.** closing 20.5% higher that day. Additionally, the **Horizons Marijuana Life Sciences Index ETF** traded 7.8% higher, Canopy shares closed 31% higher, and the recently listing **Tilray Inc.** rallied 20% higher on the NASDAQ, with well-known short seller Andrew Left tweeting that Tilray could be next in line to get the kind of support that Canopy has received.

There's a reason I didn't mention **Aurora Cannabis Inc.** ([TSX:ACB](#)) stock just now.

Why a special mention of Aurora Cannabis?

Aurora valuation had been on a downward trajectory since the late January peak out at \$15.20 this year — a trend that worsened after the conclusion of highly dilutive CanniMed and recent MedReleaf acquisitions that can be expected to have brought many sellers onto the market as these new Aurora investors rushed to cash in on the high premium all-stock deals.

Actually, Aurora stock had plunged back into penny stock territory to trade as low as US\$4.05 on Tuesday, August 14 on the U.S. OTC market. This fall back into penny stock territory was just disheartening.

Shares in this second biggest marijuana stock traded over 19% up on Wednesday to close at \$6.38 on the TSX and US\$4.87 on the U.S. OTC market.

The latest general rally in marijuana stocks could mark the onset of another bull run on the cannabis sector as we enter the legal recreational cannabis market in Canada — a market that is generally expect to generate massive revenue growth rates for the entire industry.

This is all good news for Aurora stock, as some investors were beginning to anticipate a reverse stock split on the shares before their dual listing on either the NASDAQ or the NYSE as [previously hinted](#). Aurora's issued and outstanding share count is now approaching the one billion mark.

NASDAQ and NYSE listing rules may require a minimum bid price of US\$4 on a new listing 90 days prior to application, although the minimum share price can be reduced to US\$3 a share upon meeting the one of the three listing criterion on the NASDAQ.

In the event that Aurora management hadn't processed their U.S. listing application, the latest Canopy deal could easily have saved Aurora shares from a potential share consolidation.

Share consolidations are sometimes believed to predict a declining share price in the future. Although the claims that stock splits are informative in themselves is a controversial topic, a good number of retail investors believe this, and a reverse stock split might have driven Aurora valuation down a bit.

Investor takeaway

The latest Constellation deal with Canopy has brought new bulls into the marijuana space, which is good for Aurora valuation.

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2. TSX:ACB (Aurora Cannabis)
3. TSX:WEED (Canopy Growth)

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