



Explaining Aphria Inc's (TSX:APH) Massive 148% Rally

Description

In the past month, **Aphria** (TSX:APH) has been having a [massive rally](#). Trading at just \$8.72 on August 14, the company's shares were up to \$21.70 this week — a 148% gain.

No doubt, Aphria is gaining momentum as part of the general rally in cannabis stocks. Fueled by the massive \$5 billion investment in **Canopy Growth**, cannabis stocks have been surging in the past month. The rally was revitalized recently after **Aurora Cannabis** announced a \$290 million investment in a Vancouver-based company that has a *huge* foothold in the South American cannabis market.

Given the massive coverage of these deals, it's not surprising that we'd see Canopy and Aurora shares soar. And yet Aphria has risen even more than either of those companies. Whereas Canopy gained 106% from August 14 to September 11 — a big gain its own right — Aphria rose nearly 150%, which is strange, because there hasn't been any big acquisition news from Aphria.

So, what explains the fact Aphria has done *far* better than Canopy or Aurora over the past month?

Legalization

One major factor behind the rally is the fact that cannabis is about to be legalized on October 17. This news has driven a flurry of coverage of the sector, which may have played a role in the late-summer rally. No doubt, legalization is good news for Aphria. And yet this development will not affect Aphria any more than it does Canopy or Aurora. So, why is Aphria the big winner in the late-summer cannabis surge?

Earnings

One fact that may have investors eyeing Aphria is its earnings. Unlike Canopy and Aurora, Aphria has turned a [positive bottom-line profit](#) in several recent quarters. In fact, it has had a *positive net income* for three of the past four fiscal years. Net income has been a consistent blot on the otherwise prosperous cannabis industry, with both Canopy and Aurora failing to deliver positive earnings in recent fiscal years. So, while Canopy and Aurora may have been the drivers of the cannabis rally, Aphria's fiscal soundness may have made it the main beneficiary.

M&A speculation

A final possibility is that M&A speculation regarding Aphria may have fueled investor interest in the company. Since the Canopy acquisition, there has been a flurry of speculation that Aphria or Aurora might be the target of the next big M&A transaction. Since Aphria is the smaller of the two, it seems the more likely (i.e., more attainable) candidate.

This is significant because Canopy's post-deal rally may have peaked. Within a week of the Canopy acquisition announcement, the stock had already reached the level that **Constellation Brands** paid for it. Since then, it has shot up well beyond that level. This may have sent investors looking for other options where potential buyouts were ahead of them rather than behind them. M&A transactions like Constellation's Canopy acquisition tend to drive share prices up, as investors take the purchase as a vote of confidence in the target company. It's possible that investors see Aphria as the next big M&A target, since it's small enough to be acquired and profitable enough to be worth acquiring.

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andrewbutton

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