



## Aurora Cannabis Inc.'s (TSX:ACB) Offshoot Could Be on a Roll: Time to Buy the Stock?

### Description

Marijuana sector hype and investor greed for the nascent industry's stocks has reached alarming levels, making some day traders filthy rich literally overnight. During times like these, it takes investors with nerves of steel to resist the urge to press the buy button on hot pot stocks.

The big day for recreational marijuana sales in Canada draws nearer, and the bulls have been roaming all over the North American stock exchanges, making new listings like **Tilray** [experience wild rides](#).

Two of the latest and hottest cannabis stock offerings are **Australis Capital** (TSXV:AUSA), an offshoot of **Aurora Cannabis** ([TSX:ACB](#)), and **Canopy Rivers**, which has strong ties to market leader **Canopy**, and they debuted trading just this week.

Canopy Rivers debuted trading on the TSX Venture Exchange on September 20, and shares closed up 150% at \$8.95 after hitting a day high (and an all-time high) of \$11.84 on the day.

My focus is on Australis Capital today.

### Australis Capital

Aurora Cannabis had some idle assets in the United States purchased for US\$2.3 million with an intention to enter the U.S marijuana market back in 2015, but due to the fact that marijuana remains a controlled Schedule 1 Drug at the federal level down south, the joint venture placed plans on hold, and the assets were listed for sale.

Australis Capital, which will focus on investing in the U.S. cannabis market, has taken over the above mentioned assets, and the mother company will not have any direct investment in the company until cannabis gets federally legalized in America.

Aurora shareholders who are residents of Canada received one common share unit of Australis for every 34 Aurora shares outstanding as of August 24, 2018, and each share carried an attached share purchase warrant that entitles investors to acquire another Australis share at \$0.25, valid for a year.

The newly listed stock closed over 20% higher at \$3.53 on Thursday. Shares hit a high of \$16 on the first day of trading on September 19.

### **Time to buy?**

It is common investor bias to believe that if a stock once traded at a certain price point and the price drops, but with no fundamental change to the stock, then the ticker may easily trade back up to this peak valuation, and for Australis, that price point is \$16 a share!

Speculative forces can drive valuations wildly, and for this stock, they have.

The new company will invest in the U.S. and generate value over time, but today, it has no significantly tangible cash flow and very few tangible assets to show on a balance sheet, and this should trigger some risk sensitivity for buyers in the shares.

That said, bullish sentiments may push the valuation upwards on prospects that, for starters, this is a company with strong ties to one of the fastest-growing firms in the industry, worldwide. Even if Aurora has no direct ownership and control, its management will almost always informally pass their opinion and advise to the spin-off's directorate.

It is possible this new firm may take after the mother company and try to execute as fast as it did in Canada and internationally.

Most noteworthy, Aurora has an interest to protect as it "does hold two warrants, allowing the company to acquire an ownership interest at such time in the future (within 10 years) when holding investments in U.S. cannabis assets will become permissible," as the company's press release on Wednesday stated. These warrants may be significantly dilutive though, but there could be some benefit in having the aggressive firm as a strategic partner, as other partnerships have shown previously.

Buyers beware: there is significant selling pressure on the spin-off's shares today, as the units meant for non-Canadian residents "have been delivered to a custodian for sale in the open market" and "the net cash proceeds will be delivered to non-resident shareholders..." Significant market sales may dampen share price growth in the short term.

I would urge caution as far as such speculative investments are concerned. Open positions can get wiped out very fast, and stop losses may not even help due to slippage, but there could be some promise in the young company.

### **CATEGORY**

1. Investing

### **TICKERS GLOBAL**

1. TSX:ACB (Aurora Cannabis)

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