

Why It's Time to Throw in the Towel on Aurora Cannabis Inc. (TSX:ACB)

Description

Over the last few months, I've touted **Aurora Cannabis** ([TSX:ACB](#)) as one of the best value plays in the marijuana market. After surging nearly 50% over the past week, however, I think it's safe to say that the opportunity, along with the valuation gap between Aurora and its peers has all but evaporated.

Aurora, the industry laggard over the past year, is now up an astounding 130% since the August 14 bottom when I claimed that marijuana plays like **Canopy Growth** ([TSX:WEED](#))(NYSE:CGC) and Aurora Cannabis stock were [well worth the price of admission](#).

Now that Aurora has made up for lost time and is no longer trailing the pack, I think it's time to cash out of a trade that's been profoundly profitable, to say the least.

Why now is a great time to do some selling

First, with such an astronomical return clocked in over such a short period, a rational, risk-averse investor would at least consider taking their principal off the table so that they can play with the house's money.

When it comes to pot stocks, the stakes have been raised significantly. You're playing Jenga when the tower is three feet from its base. But unlike the real game, you have the option of calling it quits at any time you'd like, and once the inevitable collapse happens, an overwhelming majority of players will stand to be losers.

You could certainly make the tower another few inches taller, but is it worth the high risk of seeing the entirety of your invested capital go up in a haze of marijuana smoke?

Second, I can't say I'm a huge fan of Aurora's management team. They've diluted their shareholders in the past with their expensive acquisitions at a time when the entire marijuana market was at its local peak.

Chasing and diluting isn't a great way to attract shareholders, and if these actions are any indication of what will happen in the future, I'd say there's a good chance that more dilution and sub-par deals will be on the horizon.

Third, the Coca-Cola talks are merely that. Just talks. No dotted line has been signed yet, but Aurora continues to soar in price as if a deal were already on the books.

Canopy CEO Bruce Linton slammed Aurora on the discussions going on behind the scenes, noting that "...deals fall apart when you make them public discussions."

While there's no question that Linton is feeling bitter over not having a deal with Coke, Linton makes a pretty good point. If such a high-profile partnership were imminent, then there wouldn't be any point in allowing such discussions to go public, as shares could implode if it turns out a deal never happened or

if investors are left hanging with regard to further updates on such discussions.

At this point, it appears that an Aurora-Coke venture is baked into shares. I'd therefore be careful about placing a bet at these recently elevated multiples.

Foolish takeaway

Aurora could soar in value if it's scooped up by a pharmaceutical company or if a Coke partnership turns into an investment.

Speculating on the occurrence of such an event basis is a dangerous move, however, especially if prospective acquirers aren't willing to be as bold as **Constellation Brands** was with its investment in Canopy.

Such interested parties are probably waiting patiently for the marijuana market to implode before they scoop up investments at or below their true worth. At these frothy levels, however, investors are expecting a barrage of big deals that may not end up happening until the next violent +50% correction.

As such, I'd encourage prudent investors also to exhibit patience as they wait for a more opportune entry point into blazing hot pot stocks like Aurora.

Stay hungry. Stay Foolish.

CATEGORY

1. Investing

TICKERS GLOBAL

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

PARTNER-FEEDS

1. Msn
2. Newscred
3. Sharewise
4. Yahoo CA

Category

1. Investing

Date

2025/07/06

Date Created

2018/09/25

Author

joefrenette

default watermark