

Time to Buy Aphria Inc (TSX:APH) After \$300 Million Acquisition?

Description

Aphria's (TSX:APH) acquisition spree shows no signs of slowing down. In July, the company announced plans to acquire LATAM Holdings from **Scythian Biosciences**. Just last month, the deal was concluded. As part of the purchase, Aphria gave Scythian 15.7 million APH shares plus \$1 million in cash. This would have valued the deal at \$193 million in July, but since Aphria shares have rallied since that time, the deal is now worth close to \$300 million.

Will the LATAM assets be worth the \$300 in equity that Aphria traded in for it?

To answer that question, we need to look at the cannabis market in Latin America.

Latin America: a lucrative cannabis market?

LATAM Holdings, as the name implies, is a Latin American cannabis company.

By all accounts, Latin America is a large and lucrative cannabis market. Legal cannabis sales in the region were \$125 million in 2018 and are expected to grow to \$776 million by 2027. Powering the growth is a trend toward legalization.

In 2013, Uruguay legalized recreational cannabis nationwide, making it one of the first countries to do so. Many other Latin American countries, including Mexico, Colombia, and Argentina, allow the possession of small quantities of cannabis for personal use. While most of these countries do not yet permit recreational sales, most do allow prescription-based medical marijuana.

The assets

LATAM Holdings gives Aphria access to some impressive Latin American assets. As part of the deal, Aphria has acquired leading companies in Jamaica, Colombia, and Argentina. The company also has first offer and refusal rights in Brazil, but is not actually producing or selling cannabis there yet.

These assets position Aphria to grow in a region with fairly liberal drug laws and a rapidly growing cannabis market. This bodes well for the company's chances of profiting off the LATAM acquisition. However, dilution of equity is a concern.

An acquisition spree

As many readers will be aware, Aphria has been on an [acquisition spree](#) in recent years, acquiring more than 10 companies in a short timeframe. Many of these deals have been very expensive and have resulted in significant dilution of equity.

The LATAM deal is no different: Aphria issued over 15 million shares for the deal, which represents about 6.4% of Aphria's total equity. As Aphria continues making these pricey deals, shareholder value will be spread thin, so investors should hope that these deals start producing profit for the company in

short order.

More profitable than its peers

It should be noted that despite concerns about dilution, Aphria has one thing going for it that many cannabis companies do not: consistent [bottom-line profitability](#). Aphria has had positive earnings for three of the past four fiscal years — something none of its closest competitors can match.

However, Aphria's earnings have mostly come from unrealized gains on investments, not operations. This means they are vulnerable to market swings. If the cannabis frenzy we're currently witnessing turns out to be a bubble, Aphria's earnings may suffer in a big way.

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