



## Is Altria Group (NYSE:MO) About to Buy Out Aphria Inc (TSX:APH)?

### Description

Looking at the tobacco and cannabis industries side-by-side presents a tale of contrasts. On the one hand, we've got a stagnant industry that's been bleeding customers for decades and is currently losing market share to vaporizers. On the other, we see a growing industry where some top companies are posting [223% year-over-year revenue growth](#).

On the surface, these two industries couldn't be more different. But in fact, there are many similarities and synergies between them. Both sell smokable products. Both are broadly highly regulated. And both are generally used for pleasure and relaxation, similar to alcohol.

In light of this, it's no surprise that rumours of big tobacco taking an interest in cannabis have begun to circulate. By buying into the cannabis industry, tobacco companies may revitalize stagnant sales, or even partner with cannabis makers to develop whole new categories of products.

This appears to be the reasoning of **Altria Group** ([NYSE:MO](#)), which is reportedly in talks to acquire a stake in pot producer **Aphria Inc** (TSX:APH). *The Globe and Mail* recently reported that Altria was interested in acquiring a stake in Aphria to, among other things, gradually buy more until it had wholly acquired the company as a subsidiary. If true, this is a major development for Aphria, which has so far not received the level of M&A interest that rivals like **Canopy Growth Corp** have [seen this year](#).

### Year-to-date performance

Altria shares have performed rather badly this year, down about 14% year-to-date. Aphria, by contrast, has more than doubled in the past 12 months. The difference between the two companies' performance is a reflection of fundamental factors affecting the tobacco industry—declining sales chief among them.

### Declining cigarette sales

Broadly, cigarette sales are on the decline in North America. In 2015, 29 billion cigarettes were sold in Canada, down from 42 billion in 2001. This trend has accelerated more recently as vaporizers have gobbled up market share from tobacco makers, owing to their lower cost and perception of being less

dangerous. The same trends can be observed in the United States.

### **Growing cannabis sales**

In stark contrast to tobacco, cannabis sales are growing by leaps and bounds. According to *Fortune*, the legal cannabis industry in the U.S. is growing at 17% CAGR and rapidly catching up to beer and spirits. In Canada, growth is expected to be even higher, with a CAGR of 77% between now and 2021.

### **Bottom line**

2018 is the “year of cannabis,” and any company broadly in a “vice” industry needs a cannabis strategy to remain relevant going forward. It’s far from certain whether Altria will actually acquire a stake in Aphria, or if doing so will help the company’s sales. But one thing is certain: the interest Canada’s pot companies are seeing from multinationals south of the border shows that big money is betting on a bright future for this industry.

### **CATEGORY**

1. Dividend Stocks
2. Investing

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1. NYSE:MO (Altria Group, Inc.)

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