



3 Reasons Aphria Inc. (TSX:APH) Ought to Find a Partner

Description

DBRS Ltd., a Toronto-based debt-rating agency, released a gloomy analysis of Canada's cannabis producers October 22. I'm sure **Aphria** (TSX:APH) CEO Vic Neufeld has read it, and he's not surprised by the findings. Investors shouldn't be either.

"Although the development of the sector may benefit all licensed producers [LPs], not all will perform equally and many will fail," stated the DBRS analysis. "At the outset, DBRS believes that the largest LPs in the cannabis sector exhibit characteristics consistent with the low, non-investment-grade [or 'junk'] range of the credit ratings spectrum — in the B range."

The B range, for those unfamiliar with debt ratings, is two levels below investment grade and considered highly speculative. **Royal Bank of Canada**, by comparison, is rated AA by DBRS on its senior debt, which is deemed to be superior regarding credit quality.

Although DBRS hasn't caught investors off guard with its pronouncement that many cannabis producers will fail, it has brought to light just how early in the game it is. A lot of water is going to flow under the bridge before any winners are declared.

However, it concludes by saying that debt ratings could improve dramatically in the months and years ahead as the cannabis industry matures and winners and losers emerge.

Here is why I believe Aphria ought to have a partner.

Reason #1

As the company prepares to list on the New York Stock Exchange (NYSE), the scrutiny it will face by investors south of the border will be far greater than what it's used to here in Canada.

I'm not talking about the media, because the Canadian coverage of pot's legalization has been extensive. No, I'm referring to the institutional crowd — the men and women who invest trillions of dollars on behalf of wealthy and not-so-wealthy clients around the world.

Canopy Growth has been listed on the NYSE since May 24. Before that, **Cronos Group** listed February 27 on Nasdaq. They've run the gauntlet and lived to talk about it. **Aurora Cannabis** entered

the fray October 23 listing on the NYSE, and Aphria will do the same shortly.

Institutional investors don't want to hear nice stories about potential; they want results, and if they don't get them within a reasonable amount of time, they'll bolt.

Canopy Growth was very wise to partner up with **Constellation Brands**, a company with years of experience dealing with institutional investors.

Reason #2

In July, before Constellation dropped \$5 billion on Canopy, I'd [recommended](#) that investors put \$5,000 of a \$10,000 bet in Constellation, another \$2,500 in Canopy and the remaining \$2,500 in **Horizons Marijuana Life Sciences Index ETF**.

My rationale was simple.

"Buying a single marijuana stock (Canopy) with some of your retirement money is one way to play this new and lucrative market," I wrote July 7. "Another way is to have Constellation Brands draft behind the fantastic potential of Canopy, but you can't pay your bills with wishful thinking."

Bruce Linton is a bright individual. He saw an opportunity to partner with Constellation while also gaining some credibility in the eyes of institutional investors — and took it.

Vic Neufeld ought to do the same.

While the rumours of **Altria** investing in Aphria turned out to be just that, the road ahead according to DBRS, won't necessarily be paved with gold. A partner like Altria gives it a massive shot in the arm and the time to grow Aphria the right way.

Reason #3

Fool contributor Vishesh Raisinghani recently [alluded](#) to Aphria's management team when discussing the company's decision to do a significant bought deal just when Aphria stock was hitting all-time highs.

Eighteen months ago, I'd recommended Aphria stock because it made money and it had an excellent management team. Fast forward to today, and not much has changed except for Aphria's production capacity, which is expected to reach 255,000 kgs by the end of 2019.

For my money, nobody understands a leafy product such as cannabis better than the cigarette companies.

With or without a partner, I still like Aphria stock. However, it will be a tougher hill to climb without one.

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