



Can You Trust Aurora Cannabis' (TSX:ACB) Stock and Canopy Growth's (TSX:WEED) Stock?

Description

Trust is a powerful word. When purchasing a stock, investors need to trust in the company they are buying not only in the products or services offered, but also in the management. Even the biggest and mightiest of companies can fall if not managed properly. One need only to look at **General Electric** as a perfect example.

It was therefore interesting to read *Report on Business*' annual look at Canada's corporate boards. The report, Board Games, looked at a company's corporate governance structures and scored them on a set of criteria in four areas: Board Composition, Shareholder and Compensation, Shareholder Rights and Disclosure.

This was the 17th annual report. How did marijuana companies fare? It wasn't great. In fact, **Aurora Cannabis** ([TSX:ACB](#))(NYSE:ACB) and **Canopy Growth Corp** ([TSX:WEED](#))(NYSE:CGC) were at the bottom of the list. How low were they? Out of the 242 companies examined, they ranked 242 and 241 respectively. Yep, the very bottom.

It's important to note, however, that it's not uncommon for companies in their infancy to score low in Board Games. However, there are some clear areas of concern.

Conflicts of interest

Aurora and Canopy both scored very poorly on board composition. Aurora managed only eight points, while Canopy scored a 13 out of 33 possible marks. Outside the lack of governing processes for directors, the biggest issue for Aurora was the lack of independent directors. An independent director is one who does not receive payments for providing non-board business services to the company.

Two board members received payment through privately-owned companies to provide services to the company. Services provided included financial advisory services, and research and development.

Canopy fared better in this respect as it the majority of the Board is comprised of independent directors.

Share dilution

Canada's largest marijuana companies also scored low on Shareholding and Compensation. Aurora eeked out a six and Canopy an eight out of a possible 30 points. Ouch. The main reason is that both companies offer high levels of stock options to directors and executives. This has the net effect of share dilution, which is never a good thing for investors.

Likewise, the options aren't tied to performance. Companies score higher marks if options are tied to performance metrics or the company's share price. This helps ensure that the decisions made are in the best interest of shareholders.

Lack of transparency

Perhaps most concerning of all was the complete lack of transparency from Aurora Cannabis and Canopy Growth. Out of a possible 10 points, Canopy only managed a three. Aurora? It failed to register a single point. This complete lack of transparency is a big reason why the industry is still speculative. It's very difficult for investors to put their trust in companies who fail to be transparent.

Not all pot stocks fared so poorly in this area. The only other pot stock analyzed, Aphria, scored a seven in this section.

Foolish takeaway

The marijuana industry [lacks credibility](#) and it appears, rightfully so. The Board Games report reveals some of the significant issues facing these companies. Should [you trust them](#) with your money? Management and the board have a ways to go if they want to earn investors' trust. In light of this, better to stick to fundamentals, which still point to overvaluation.

CATEGORY

1. Investing

TICKERS GLOBAL

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

PARTNER-FEEDS

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

Category

1. Investing

Date

2025/08/26

Date Created

2018/11/27

Author

mlitalien

default watermark

default watermark