



## Is Aphria Inc. (TSX:APHA) Stock a Buy After a 28% Crush on Monday?

### Description

**Aphria Inc.** (TSX:APHA)(NYSE:APHA) stock plummeted as much as 29.78% on Monday after short seller published a report that claimed that company insiders have been enriching themselves at the shareholder's expense through buying inflated and questionable assets from related parties in recent Latin America deals.

Could this be the best time to make a contrarian buy on the ticker during a time of severe price weakness?

### The short attack

The duo of Hindenburg Investment Research and Quintessential Capital Management teamed up to unleash an all-nuclear attack on Aphria on Monday after travelling all the way to Argentina, Colombia and Jamaica on a due diligence exercise on the company's recent acquisitions in the emerging cannabis market, and found some purported evidence that the company's insiders bought questionable, low-quality assets and then sold them to the company for massive personal profits.

At its most vicious attacking point, the short sellers' report suggests that the company might have bought some non-existent LatAm assets, and estimates that about 50% of the company's net assets on the balance sheet "have been diverted to 'investments' that are, at best, grossly inflated."

### A flight to safety

Given the serious allegations of self-dealing and front running in the short seller report and the seemingly strong evidence presented from the extensive due diligence conducted, the attack on the company could leave a much deeper scar on its image than the recently "forgiven" [Nuuvera Corp acquisition](#) that later raised questions about management integrity and its disclosure sincerity.

The claims by the short sellers are very deep, the evidence brought forward so glaring and the allegations levelled against the company are not so easy to refute unless the claimed evidence is pure fabrication.

Even if we are to assume that the short sellers' findings are outright lies, a foolish investor may want to see the numbers first before believing any company claims of innocence, yet the numbers from recent LatAm acquisitions may take long to make significant contributions to corporate earnings. The investments are still in infant growth stages and will thus require further funding.

A flight to safety is the natural reaction a retail investor would make, but institutional equity holders may make further investigations before a sell or double down decision can be made. Capital losses could deepen should the smart money decide to dump the shares too.

### **What if the short seller report is credible?**

Should the accused parties actually committed the sinful acts as alleged by Hindenburg Investment Research, a big scandal will unfold and a significant portion of the goodwill on the company's balance sheet may need to be written down, a significant portion of the firm's intangible assets may be taken off, and potential regulatory proceedings and lawsuits from aggrieved parties could follow.

Considering the astronomical valuation multiples on cannabis equities today where the present value of growth opportunities constitutes the biggest component of the share price, the capital loss on an equity investment on Aphria stock could be much worse than Monday's near 30% plunge.

If no tangible economic benefits should be expected to accrue to shareholders from the recent acquisitions in question, it's not just the potential investment write-downs that would worrisome, but the multiples of revenues and earnings potential built into the share price from those purported assets that would drop off if the allegations are anywhere close to being true.

### **Investor takeaway**

Aphria stock could be a falling knife today, and there could be further bleeding if management fails to contain the situation. The short seller allegations are still fresh, and there is a significant probability that they hold some water. I wouldn't recommend new money on this company's shares at the moment, as there could be further damaging news in the near future.

That said, earnings numbers will do much of the talking over the next few years, but new investors may want to wait until the massive selling pressure has somehow receded. The short sellers involved have some reputation on inflicting significant damage on a targeted stock, and the Nuuvera issue is no good precedence on the marijuana grower's case.

Ironically, the company [recently ranked better](#) than close competitors on corporate governance. The company's reputation has been grossly impaired, and investor trust on management's stewardship qualities will take longer to return, implying a much longer waiting period for a share price rebound.

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## **Date**

2025/08/24

## **Date Created**

2018/12/04

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