



## Aphria Inc. (TSX:APHA) Is Under Short Attack! Buy the Dip or Jump Ship?

### Description

**Aphria** (TSX:APHA)(NYSE:APHA), [my least favourite cannabis company](#), nosedived 40% in two trading sessions following the release of a short report authored by a hedge fund called Quintessential Capital Management and a forensic analysis company called Hindenburg Research.

Gabriel Grego, founder of Quintessential, had some harsh words for Aphria, calling it a “black hole” and claiming that the company is “worthless” after it wasted hundreds of millions on takeovers that didn’t appear to create value, something that I’ve warned investors of many times in previous pieces.

Moreover, Grego also stated in a conference that the company had diverted around half of its assets into inflated insider investments.

### Foolish investors were warned!

Earlier this year, I published a piece entitled [“Why I wouldn’t touch Aphria Inc.’s stock with a barge pole,”](#) expressing my concerns over Aphria’s acquisition activities that I believed were akin to management “shooting themselves in the foot.”

“As of right now, there’s very little visibility. If I were an investor, that would make me really paranoid!” I said earlier this year. “How long does Aphria actually have to get rid of its U.S. assets? Is there a workaround? Are investors in danger? These are all questions that give rise to another layer of uncertainty that appears to be unique to Aphria.”

Indeed, after Mr. Grego publicly disseminated his short report, it appears that my suspicions were warranted with regard to the potential value destructive nature of the company’s acquisitions.

I subsequently slammed Aphria’s management for its exposure to “illegal” U.S. assets and its abruptness in selling these assets so the company’s stock could remain listed on the TSX. I thought the quick sale was a destroyer of shareholder value, but also noted that in comparison to Aphria’s recent acquisitions, the sales wouldn’t really make much of a difference given that the damage had already been done.

Back in January, I expressed my distaste for Aphria in spite of other analysts' praise of the company's remarkable fundamentals and low costs of production, which were head and shoulders above anyone in the industry at the time. Aphria's operations seemed too good to be true, and guess what? Should Mr. Grego's serious allegations prove to be true, they very well may be.

As you'd imagine, Aphria's management team has denied all allegations, claiming that the short seller claims were "false and defamatory." I'd take that commentary with a very fine grain of salt, and would encourage investors to continue to stick with a more reliable, more transparent pot producer like **Canopy Growth** for those looking to bet on cannabis at this juncture.

Given a large number of unwarranted defamatory short attacks targeting Canadian companies over the past few years, however, there's still a chance that Grego and Quintessential's short thesis may be proven false.

Personally, I'm standing in Grego's corner and would advise selling Aphria stock until management can prove their innocence. The judicial system is all about "innocence until guilt is proven," but in the world of investing, I strongly believe it should be the other way around, as investors shouldn't feel obligated to bet on the outcome of a binary event that could have severe negative implications.

In addition, I've previously compared Aphria's predicament to that of **Valeant Pharmaceuticals** when it was in divestiture mode a few years back. If worse comes to worst, there may be more comparisons than I initially thought!

### **Foolish takeaway on Aphria**

After Quintessentials' recent short attack, the layer of uncertainty has been raised to the next level and shares are essentially uninvestable, as I've alluded to in past pieces.

In the meantime, investors should grab their popcorn as they enjoy the Aphria versus Quintessential battle safely from the sidelines.

Stay hungry. Stay Foolish.

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