

Cannabis Investors: Should Aphria Inc. (TSX:APHA) or Aurora Cannabis Inc. (TSX:ACB) Stock Be in Your Portfolio?

Description

The extended pullback in [marijuana stock prices](#) from the September and October highs is now pushing some pot stocks to new 12-month lows.

Investors who bought cannabis stocks in the weeks and days leading up to the launch of the Canadian retail market might be feeling a bit uncomfortable right now. However, those who missed out on the big rally earlier this year are wondering if this is a good opportunity to start a new position in the [marijuana sector](#).

Let's take a look at **Aphria** (TSX:APHA)(NYSE:APHA) and **Aurora Cannabis** ([TSX:ACB](#))(NYSE:ACB) to see if one might be an interesting pick today.

Aphria

Aphria took a huge hit in recent trading sessions after a short-seller report came out that suggests the company overpaid for assets in Latin America and the Caribbean. At the time of writing Aphria trades for \$5 per share, compared to \$11 a week ago and \$20 in September.

Quintessential Capital Management (QCM) claims that Aphria's recent purchases of assets in Jamaica, Argentina, and Colombia could prove to be worth significantly less than the acquisition price.

Opinions often vary on the value of assets in transactions and SOL Global Investments Corp., which sold the assets to Aphria, claims the allegations are false. Aphria is planning to respond to the claims, and investors will have to decide who to believe and whether there is a long-term effect on the company.

One concern might be the impact on a possible deal with a major beverage or tobacco partner.

Canopy Growth and **HEXO** already have arrangements with beer companies, and **Cronos** recently acknowledged that it has been in talks with **Altria**.

Until the QMC issue is sorted out, potential partners could decide to stay on the sidelines or seek deals with other marijuana companies.

At the current stock price, Aphria has a market capitalization of \$1.25 billion. If one of the other major players sees value in the company's production facilities and supply contracts, a takeover offer could emerge while the stock is under pressure.

Aurora Cannabis

Aurora Cannabis trades at \$6.20 per share, down from close to \$8 last week and a closing high of \$15 in October, just before the launch of the Canadian retail market.

The current price puts the market capitalization at \$5 billion, which is still significant in the industry, but less than half the value of Canopy Growth and **Tilray**, the market leaders.

Rumours emerged a couple of months ago that Aurora Cannabis had talks with **Coca-Cola**, but no deal emerged and the drinks giant later said it was not pursuing a cannabis partnership.

Aurora Cannabis has been very aggressive in its acquisition strategy, buying both CanniMed and MedReleaf in deals of \$1.1 billion and \$2.5 billion. The company recently spent \$290 million to buy ICC Labs to secure a position in South America.

Given the company's appetite for scaling up quickly, it wouldn't be a surprise to see Aurora Cannabis take a run at Aphria.

Is one attractive right now?

Despite the steep declines, all of the cannabis stocks remain expensive based on their current revenue. As such, investors should be careful when putting new money into the sector.

That said, there could be an opportunity for some big gains if sentiment shifts. Ongoing volatility should be expected, but investors who are positive on the long-term growth potential for the industry might want to start nibbling on additional downside.

Regarding these two companies, I would probably avoid Aphria until the dust settles on the QMC claims. Aurora Cannabis might be a better contrarian bet.

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aswalker

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