



Is Aphria Inc. (TSX:APHA) Stock Really Worth \$0?

Description

Aphria (TSX:APHA)(NYSE:APHA) took another double-digit percentage plunge on Wednesday as sell-side analysts scrambled to revise their investment theses and price targets in response to the allegations brought forth by Quintessential Capital Management's Gabriel Grego, a man who's putting his money where his mouth is with a sizeable short position in Aphria stock.

Now, Foolish readers are probably aware that Aphria has been [my least favourite Canadian marijuana stock](#) over the last year. I've urged investors to pass on the name and to instead opt for **Canopy Growth** (TSX:WEED)(NYSE:CGC), a superior pot firm that I believe had more transparency, a far better long-term strategy, and more prudent, long-term focused management team.

Furthermore, I wasn't a big fan of Aphria's acquisition track record, and I made that very clear in prior pieces, but the final deal-breaker for me was the fact that Aphria was the only Big Three cannabis player to be caught with its pants down when the company's stock faced a potential TSX delisting earlier in the year in response to the company's "illegal" ownership of U.S. assets.

Aphria has since divested its U.S. assets, and investors were quick to forget about the whole ordeal, but for me, the fact that Aphria owned U.S. assets, to begin with, was a sign that management lacked prudence and had a tendency to get ahead of itself. Although it was easy to dismiss the seemingly easily-fixable problem, I thought it was in the best interest of investors to own shares of a company whose management team showed more restraint and prudence.

Canopy CEO Bruce Linton was quick to take subtle jabs at Aphria, noting that his firm hadn't owned "illegal" U.S. assets as Aphria did at the time, noting that "if there's a doubt, [he preferred to] err on the side of clarity."

Now that Aphria is under short attack from Quintessential, I can't say that I disagree with him when he says Aphria is "worthless."

Grego's serious allegations remain just that (for now), but as Aphria brings him to the courthouse for what they believe is a "defamatory" call, we could witness more "smoking guns" as Grego mentioned in a televised interview with Amanda Lang on *BNN Bloomberg*. If Grego's allegations are shown to be

true, count me as unsurprised if Aphria falls to \$0.

Analysts caught offside with Grego's "surprising" short report

As you may have noticed, many analysts covering Aphria stock have changed their "buy" ratings to "under review" as they take a step back to finish their unfinished homework.

If you took a sell-side analyst's word on Aphria, you would've gotten hurt, and while the company may still be innocent, I don't think the risk/reward trade-off is worthwhile for investors. I believe it's an all-or-nothing bet at this point and unless you're comfortable betting on the outcome of a coin toss, it's best to move your money into any other cannabis play, preferably Canopy.

There's no question that many folks were too high on Aphria's "industry-leading" production costs and their "standout" fundamentals when they slapped ambitious price targets on Aphria stock. I wasn't one of them, as I've often noted that the Aphria's "fundamentals didn't matter" in the nascent stage of the marijuana market and that investors would be better-served by valuing a pot firm based on the [quality of its management](#).

Why don't the fundamentals matter in the world of marijuana?

Relying on [traditional valuation approaches](#) like discounted cash flow (DCF) models or multiples only works for relatively stable firms that possess stable cash flows, not when there are too many contingencies to keep track of.

If you're valuing a stalwart, the DCF model and traditional valuation metrics like ROE, ROA, and gross margins will make sense to use, but if you're using them in a market where there are quadruple-digit percentage growth moves, good luck projecting the intrinsic value of a company with any degree of precision.

Add "crazy cannabis accounting" into the equation and it's more apparent that traditional valuation metrics are indeed the wrong tool for the job, like using a monkey wrench to perform surgery!

Instead, investors should focus their efforts on evaluating the competencies of a management team. I think it was clear from the acquisitive moves made by Aphria at a time of local overvaluation that management appeared focused on the short term, as many pot investors were at the time. Canopy showed restraint, and I found that one of the many attractive traits that many of its peers continue to lack to this day.

So, is Aphria really worth \$0?

Nobody really knows. But given Grego's beliefs that Aphria may be "worthless," why would you even want to take a chance on losing your entire investment at a whim? Just stick with Canopy if you want to bet on pot.

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