



Is the Boom in Canada's Marijuana Stocks Over?

Description

[Canada's marijuana stocks](#) have been under pressure since the country opened up its market for the recreational use in October. The steep decline in the share values of top producers have investors wondering if the legalization boom for the pot producers is over.

The latest shock to marijuana stocks came when an investigative report by a short-seller, **Quintessential Capital Management**, called **Aphria Inc.** (TSX:APHA) a “black hole” due to the company’s questionable deal-making in Latin America.

Gabriel Grego, the founder of Quintessential, released a report this week claiming that Aphria, one of Canada’s largest pot producers, was overpaid to acquire companies held by insiders in South America and the Caribbean.

The short seller also alleged that Aphria purchased companies from **SOL Global Investments Corp**., which had acquired them shortly before at a “significantly lower” price from three Canadian shell companies linked to Andy DeFrancesco, chairman of SOL and adviser to Aphria.

This scathing report by Grego, who believes that Aphria stock is worth zero, caused a massive plunge in Aphria stock that lost more than half of its value this week and was trading \$4.65 a share at the time of writing.

Implications for other marijuana stocks

Without delving into the merits and demerits of this report, one impact this allegation will have on other pot stocks is that it will slow their recovery and prompt investors to scrutinize the sector more vigorously. Analysts’ reaction to this report shows that the market has taken these allegations seriously.

BMO analyst Tamy Chen cut her price target for Aphria to \$9 from \$22, citing “considerable uncertainty surrounding the stock.” Martin Landry, analyst at GMP Securities, put his rating and price target for Aphria under review.

In my view, this negative development is specific to Aphria, and investors shouldn't paint the every name with the same brush. Other larger producers, such as [Canopy Growth Corp. \(TSX:WEED\)](#) (NYSE:CGC) in which **Constellation Brands** has a large stake, still offer a solid investment case.

After the Aphria setback, we may see the current downturn prolonging in an environment when investors are generally shunning the riskier assets. But over the long run, the large cap marijuana stocks, especially Canopy Growth, continue to remain a solid investment due to their global operations and the leading market position in Canada.

CATEGORY

1. Investing

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2. TSX:WEED (Canopy Growth)

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