



## Why Aphria Inc (TSX:APHA) Fell 55% in 1 Week

### Description

**Aphria** (TSX:APHA)(NYSE:APHA) is starting to look like the black sheep of marijuana stocks. Although the entire cannabis sector has been tumbling since October, Aphria has been among those hit the hardest, erasing 66% of its value in just two months. Last week saw a particularly sharp downturn in Aphria shares, which fell over 50% between November 28 and December 5. That's a steep slide, even for an industry where falling stock prices are beginning to become the norm.

So, why did Aphria take such a steep tumble, even though the company hasn't reported any big news lately, positive or negative?

The answer likely has to do with a scathing report by a hedge fund manager that sent shockwaves through the industry.

### A devastating report

On December 3, hedge fund manager Gabriel Grego released a scathing report that accused Aphria of being a "black hole" designed to transfer money from shareholders to executives. The report made many shocking allegations, most notably that Aphria insiders bought up shares in "worthless" foreign companies to sell them to Aphria at high prices. If true, these allegations would suggest that Aphria is in big regulatory trouble. So, when the report made the rounds everywhere from *Bloomberg* to *CBC*, it's no surprise that it sent shares tumbling.

### Shorters take interest

As a result of Grego's report, short interest in Aphria increased. Recent data shows that the percentage of shares short rose from 7.32% on December 3 to 14.19% on the 6th. Some have even described what happened as a "[short attack](#)," designed to send the share price lower. However, on December 7, the level of short interest in Aphria slid to 9.66%, after Grego apparently walked back part of his story in an interview on BNN.

## Shaky profits

Last but not least, we have the matter of shaky profits/earnings. Although Aphria fares better than some cannabis producers in the net income department — it has had the odd quarter where it posted positive earnings — it doesn't have a consistent long-term trend of being profitable. Part of the reason Aphria is able to eke out positive earnings is because of its investment portfolio, which largely consists of blue-chip TSX stocks. In terms of operating income, the company is in the same position as most cannabis producers — that is to say, it's losing money. The company does consistently earn positive gross profits, however.

## Bottom line

Long before Mr. Grego released his scathing report about Aphria, the company had been under fire for spending [heaps of money on acquisitions](#) at nosebleed valuations. Although I doubt Grego's claim that this is all part of a nefarious scheme, it is true that the company has diluted shareholder equity for the sake of some very costly acquisitions. The million-dollar question is whether those acquisitions will pay off and generate value for Aphria shareholders. For now, it's not clear what will happen, so I'd hold off on investing in this stock.

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