



Trading Near 52-Week Lows: Is Aphria's (TSX:APHA) Stock a Buy for 2019?

Description

Outside of the normal volatility associated with all marijuana stocks, **Aphria** (TSX:APHA) has been all over the news. It all started when the company was the target of a short pitch at the famed Kase Short-Selling Conference. The idea was pitched by Gabriel Grego of Quintessential Capital Management and Hidenburg Investment Research who referred to Aphria as a "shell game with a cannabis business on the side." Ouch.

It was a compelling presentation. In essence, the short sellers pointed to a series of deals totaling close to \$1 billion that they believe are worthless and were a means to funnel money to insiders pockets. Unfortunately for investors, Aphria's stock price was sent [plunging by double digits](#).

Aphria short-selling thesis

The presentation was pretty damning. If the allegations hold up, there should be some serious ramifications for the company. The problem is that it's not the first time the company has been accused of lining investors pockets. The company's acquisition of Nuuvera was littered with the same issues as insiders failed to disclose self-benefits from the deal.

It's a disturbing pattern and one that cannot be discounted. Aphria was quick to counter and defended itself against the bear thesis. It called the report "malicious and a self-serving attempt to profit" by the short-sellers.

Unfortunately, only two days after defending itself, Aphria announced that its LATAM acquisition was under review. The LATAM acquisition was singled out by the bears as being worthless and nothing but empty buildings and promises.

Lack of trust

The company is under attack and short-sellers have piled on. Its reputation is in the dumps and it will take a considerable amount of maneuvering to dig itself out of this hole. If Aphria's review of the LATAM acquisition corroborates the allegations, then shareholders had better watch out. This would

amount to significant negligence on behalf of management and the board of directors.

Class action lawsuits have already been filed and could accelerate depending on the outcome of the review. All of the company's transactions over the past year will be under the microscope. As the saying goes, where there's smoke, there is fire.

The marijuana sector already has a stigma attached to it and valuations are through the roof. Reputation and trust is of the utmost importance to investors; without it, Aphria will have a difficult time moving forward.

Foolish takeaway

Unfortunately for Aphria shareholders, the pain may have just begun. A class action lawsuit has been filed, and there is little reason to trust management. Admittedly, after the recent downturn, it is one of the better valued pot stocks. However, an investment in Aphria now [comes with added risk](#).

At this point, the risk isn't worth the reward. I'd stick with companies like **Canopy Growth Corp**, **Aurora Cannabis** and **CannTrust** who have equal reward opportunity and less self-induced risk.

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