



Aphria Inc (TSX:APHA) Targeted With Takeover Offer: Why It's a Bad Deal

Description

Yesterday, we learned that **Aphria Inc** (TSX:APHA)(NYSE:APHA) had become a takeover target by U.S. cannabis company **Green Growth Brands Ltd.** (CNSX:GGB). Green Growth had offered a swap of stocks where Aphria investors would get 1.5714 shares of Green Growth's shares in exchange for one Aphria share. As of Thursday's valuations, that would equate to a price of about \$11 per share for Aphria's stock, which is more than 45% higher than its closing price of \$7.57.

Green Growth claims it did initially attempt to negotiate a friendly deal, but after that failed to go anywhere, the company chose to go the hostile route instead. However, convincing investors that a price of \$11 is a good offer for a stock that was trading at more than \$20 earlier in the year might prove to be a bit of a challenge. The only reason it appears to be a premium is that Aphria's stock price has done so poorly this year. It was down 59% year to date heading into Friday's trading.

Not only have pot stocks as a whole been struggling, but Aphria has been hit with a critical [short-seller report](#) that sent its stock down even further. It makes the company an easier target for a takeover since at a lower price point, as frustrated investors may be willing to take the offer rather than wait and hope that things improve.

Aphria responds

It didn't take long to get a response from Aphria's management, as it issued a release on Friday morning. Aphria's Chair, Irwin Simon, stated, "While we appreciate GGB's interest in the value we have created at Aphria and our significant growth prospects, their proposal falls short of rewarding our shareholders for participating in such a transaction."

Simon also pointed out the recent volatility in Green Growth's stock price that presents a lot of risk to investors. As of Thursday's close, Green Growth's stock was just under \$5 per share. Given how unstable pot stocks have been lately, it's hard to gauge whether Green Growth's current value is inflated and really worth its price tag.

Could we see more offers coming?

The offer from Green Growth comes after the Farm bill in the U.S. was just [passed](#) a few weeks ago. With the U.S. now permitting hemp-derived cannabidiol at the federal level, it could open the door to potential deals between U.S. and Canadian cannabis companies. If Aphria investors balk at this offer from Green Growth, it may not end up being the only offer they get.

Bottom line

There's a lot of change happening in the cannabis industry and we'll likely see even more in 2019. With Aphria's stock coming off a 52-week low, I'd be surprised if the share price doesn't bounce back next year. The only way that Green Growth's offer looks good is based on today's valuation, and the optics of it could be very different in a few weeks or months from now.

As a result, Aphria investors might be best off just staying the course and seeing how the year plays out, particularly with recreational sales now factoring into their results.

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djagielski

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