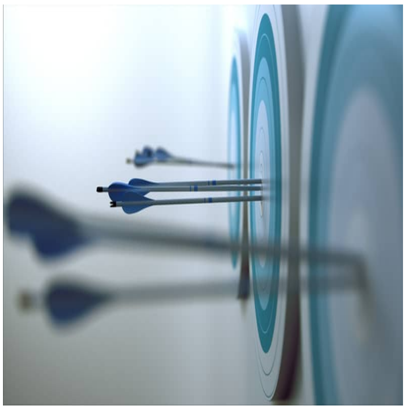

BUY ALERT: Aphria Inc (TSX:APHA) Becomes Takeover Target

Description

It might seem strange to recommend **Aphria** (TSX:APHA)(NYSE:APHA) this early in 2019. After short attacks, lawsuits, and a brutal bear run, the stock had an abysmal performance late last year. And, in fact, based on both fundamentals and momentum factors, I would never recommend it — either as a short-term or long-term pick.

But M&A activity can change these sorts of calculations quickly. When one company buys another, the stock price by definition has to reach the purchase price, and that can create quick, easy profits for investors. Generally, big M&A purchases are at prices significantly above the market price, making them some of the surest profits up for grabs.

This brings us to Aphria. Recently, the company made headlines by being the target of a takeover bid. Specifically, it was rumoured that the company was being subjected to a *hostile* takeover attempt after management *rejected* the target price offered by a major buyer. The claim that this takeover is hostile makes its likelihood of closing lower than ideal. But should it close at the buyer's target price, then it would result in a 33% return for current Aphria shareholders.

Before we look at the possibility of that happening, we need to look at the background story behind this proposed takeover.

Who's behind the takeover?

On December 27, it was reported that a company called **Green Growth Brands** intended to buy Aphria for $11 a share — a 33% premium to the stock's price (as of this writing). According to Green Growth representatives, Aphria had rejected the $11 all-stock bid, meaning that any further pursuit of the deal at that point would be hostile. Green Growth denies that it's pursuing a hostile takeover, but the fact that the company is still pursuing the deal, despite Aphria's rejection, makes the odds of an eventual hostile attempt high.

The target price

When Green Growth approached Aphria about a buyout, it valued the stock at $11 and proposed a transfer of Green Growth shares. This means that Aphria shareholders would not end up with $11 in cash, but an equivalently valued number of Green Growth stock. So, Aphria shareholders would have to sell their shares to realize any gains resulting from the takeover.

Potential gains

If Aphria were bought out today for cash at the price Green Growth proposed, shareholders would pocket an instant gain of 33%. However, the fact that this is a stock deal complicates the matter. Share prices — especially in a volatile industry like marijuana — can vary significantly in the course of a day.

If Aphria executives accepted Green Growth’s offer at $11, the value of Green Growth shares could fall before the deal was closed, resulting in a smaller return for Aphria shareholders. But Green Growth shares could just as easily rise, resulting in a larger-than-anticipated gain.

Bottom line

Hostile takeovers are high drama, and they can generate big returns for shareholders. The fact that the proposed Aphria deal is an all-stock one makes the potential return hard to gauge, but the target price of $11 would be a big gain over the stock’s current price. If the deal is ever renegotiated at the same target price but for cash instead of stock, then Aphria will be an unambiguous buy.

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andrewbutton