



Aphria's (TSX:APHA) Stock Isn't Worth the Risk

Description

Trust. It's a powerful word. Investing is not all about the numbers. Investors also need to [trust in management](#) and their ability to lead the company. Unfortunately, **Aphria's** (TSX:APHA)(NYSE:APHA) management is losing investors trust. Let me explain.

Aphria's acquisition of Nuuvera

The red flags first started to appear in late March of 2018. Early in 2018, Aphria agreed to purchase Nuuvera for \$826 million, a significant premium to its value at the time. In general, the market believed that the company overpaid for Nuuvera, a common occurrence during this period of industry consolidation.

However, a day before closing, it came to light that insiders held approximately 0.9% of Nuuvera shares. In management's view, this was not material, and as such, they did not disclose their stake — a stake in which they turned \$900,000 into \$4.75 million in seven months. Although technically legal, it wasn't exactly above board.

Questionable acquisitions

Fast forward to this past fall when notable short sellers [made a case against the stock](#) at the famed Kase Short-Selling Conference, claiming that Aphria's most recent acquisitions were worthless.

After initially balking at the report, Aphria has since struck an independent committee to review the deals in question. As the saying goes, where there's smoke, there's fire. Aphria's share price crashed on the news and was trading near 52-week lows.

Green Growth Crop's bid for Aphria

Last week, Aphria's saga became even weirder. Green Growth Corp, a small cap worth approximately \$900 million announced its intention to bid \$2.1 billion for Aphria. In turn, the company's share price shot up about 20% from its lows.

First, the bid itself made no sense. The deal valued Green Growth's shares, which trade on the **Canadian Stock Exchange** (CSE) at \$7.00 a share. Yet, the company was only trading near an all-time high of \$5.00. The deal for Aphria values Green Growth's shares at a 40% premium, which immediately raised red flags with the investment community.

Aphria's management came out against the deal, saying it undervalued the company. I expected no less.

The next item of concern, is that once again, Aphria insiders have a stake in both sides. Green Growth's second largest shareholder is GA Opportunities Corp., a fund backed by Aphria and advised by Aphria Chief Executive Officer Vic Neufeld.

It's hard not to be skeptical of the deal given Aphria's questionable history. The offer has almost zero chance of succeeding — an offer that's hypothetical, as there's no actual deal on the table. Green Growth only indicated publicly that it intends to bid for the company. No official bid has yet been made.

Foolish takeaway

I find it difficult to put my trust in Aphria management. As a result of the short report, there were several class action lawsuits filed against the company by shareholders. At this point, I would avoid Aphria until the dust settles. There are much safer players in the sector. Aphria is not worth the risk.

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