



## Is Aphria Inc. (TSX:APHA) Stock a Buy After the 60% Rally?

### Description

Investors who bought **Aphria** (TSX:APHA)(NYSE:APHA) stock at the low a month ago are sitting on gains of better than 60%, and those who missed the sharp recovery are wondering whether more upside might be on the way.

Let's take a look at the current situation to see if Aphria deserves to be in your [portfolio](#) right now.

### Short seller report

The broader marijuana stock sector was already in retreat in the weeks that followed the launch of the Canadian recreational market, but Aphria took an additional hit after a report came out from a short seller that claimed Aphria had overpaid for assets it acquired in Jamaica and South America.

The assets in question primarily involved a Tier 3 production licence in Jamaica, a pharmaceutical business in Argentina, and farmland in Colombia. Hindenburg Research and Quintessential Capital Management claimed the assets were worth much less than the \$193 million value Aphria attributed to them when the deal to buy LATAM Holdings was announced.

Aphria's share price fell from \$10.50 before the December 3 release of the report to a closing low of \$5 per share on December 5.

Bargain hunters moved in at that point, pushing the stock back above \$8 per share in the following days. At the time of writing, Aphria trades for \$8.25.

### Takeover rumours

The steep sell-off has triggered a wave of takeover speculation. Aphria's current market capitalization is about \$2 billion, which might make the company an attractive target for its larger [peers](#), including **Canopy Growth** and **Tilray**.

A cannabis brand company, **Green Growth Brands** indicated in late December that it is considering a hostile takeover of Aphria for \$2.8 billion. At the time of writing, Green Growth has a market

capitalization of just under \$900 million.

Consolidation is expected to continue in the cannabis sector, and while some pundits have their doubts as to whether Green Growth Brands would be able to successfully acquire Aphria, the possibility of a takeover is something investors should consider.

### Should you buy?

The meltdown in the stock price after the short seller claim was likely overdone. Even if the report has some merit and Aphria overpaid for the assets, the deal is a small part of the company's overall operations that include significant production and distribution in Canada and a growing global presence, with partnerships or subsidiaries in several countries.

Aphria made two major acquisitions in 2018, and based on management's apparent goal to be one of the leaders in the race to dominate the global cannabis market, I would be surprised to see Aphria get bought by one of its peers.

A more likely scenario would be a major investment from a global beverage or tobacco company. Whether Aphria can command a significant premium is up for debate, but the industry trend suggests some form of partnership is probably on the way.

Canopy Growth has partnered with **Constellation Brands**, **HEXO** has a joint venture with **Molson Coors Canada**, Tilray is partnering with **AB InBev**, and **Altria** recently announced a deal to take a 45% stake in **Cronos**.

The entire marijuana sector still appears expensive and investors should anticipate ongoing volatility. However, if you are positive on the industry over the long term, Aphria might be an interesting contrarian pick right now.

Other strategic opportunities also deserve to be on your radar for 2019.

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