Aphria Inc (TSX:APHA) Stock Has an Easy Path to 30% Upside

Description

Aphria (TSX:APHA)(NYSE:APHA) stock is in the dumps, down 50% from its highs in September. At $9 a share, Aphria stock is down to the same levels as late 2018, despite many volatile swings along the way.

Many well-known investors are flocking to the company. In December, notorious short-seller Citron Research published that Aphria could have up to 70% upside. The rationale was largely based on increasing mergers and acquisitions within the industry. The report specifically highlighted **Altria's** 45% stake in **Cronos Group Inc**.

Citron Research believes that following Altria's actions, a "floor has been established," adding that it's "time to rethink all valuations" for pot stocks. Aphria's exposure to the Canadian market, it argued, was too large to ignore.

Later that month, Aphria shares were halted as **Green Growth Brands** prepared a bid for the company. The market largely ignored it, but it's a solid sign that Aphria has at least 30% upside this year.

Aphria is putting up a fight

On December 31, Green Growth reaffirmed its "commitment to launch an offer to purchase all of the issued and outstanding common shares of Aphria Inc." If the deal goes through, Aphria shareholders will own 60% of the combined company. Meanwhile, Green Growth shareholders will own about 34%. The rest will be controlled by debt holders.

Green Growth is doing its best to convince Aphria's management team, but it's facing an uphill battle. Green Growth argues that the merger will "create an unparalleled North American player with operations on both sides of the border." Others are less convinced. Hindenburg Research, for example, called the merger "non-credible."

Aphria created an independent committee of directors to consider the bid but recently noted that the deal suggests a significant discount to the company's potential value.

If Green Growth doesn't succeed, another acquirer will

According to a recent *New York Times* article, "big companies are unlikely to make major moves in the American market until recreational use of THC products is legal at a federal level." This will provide smaller companies like Aphria the ability to grow without facing the multi-billion-dollar budgets of players like big tobacco.

Dozens of multi-national corporations have indicated a growing interest in the cannabis market. Judging by recent activity, they'll likely enter via acquisition, rather than start from scratch. There's simply too much regulation and red tape to enter the market in any other way. Additionally, the small size of most cannabis players (most are under $10 billion) will make it easy for big players to gobble them up. Financing won't be a problem.

Let's run some math to determine a potential acquisition price.

Over the last 12 months, Aphria has generated more than US$35 million of revenue. That's similar to what MedReleaf produced before being acquired by **Aurora** for US$2.5 billion. At that price, Aphria stock should be worth more than 30% more than current levels.

As the industry matures, and players like Aphria solidify their first-mover positions, anticipate the required takeout price to rise, especially as competition for deals heats up following any federal action in the U.S.

In its report, Citron Research noted that "Aphria has a shot at increased value through becoming the next platform company or being taken out entirely (and solving others' problems)." Judging by the growing interest by multi-billion-dollar, international corporations, it's difficult to disagree with that assessment.

With a takeover bid already in the works, plus the backing of previous acquisition multiples, Aphria has a clear shot to rise 30% or more in 2019.

CATEGORY

1. Investing

PARTNER-FEEDS

1. Msn
2. Newscred
3. Sharewise
4. Yahoo CA

Category

1. Investing

Date
2025/08/26

Date Created
2019/01/12
Author
rvanzo