



Will Aphria Inc (TSX:APHA) Be Bought Out?

Description

Aphria (TSX:APHA)(NYSE:APHA) has been on a great run in January. Starting off the year at \$8.15, it reached \$9.36 by the middle of this week — a 14% gain. This rally comes after a weak late 2018 for the company, which saw its stock fall 60% in the course of four months. During that time, Aphria had been rocked by short attacks, scathing accusations, and even lawsuits. But now, a takeover attempt by **Green Growth Brands**, based on an offer of 1.5 Green Growth shares per Aphria share, has renewed interest in the stock.

Green Growth's offer works out to about \$8.8 per Aphria share. This is lower than the price Aphria traded at on Wednesday, and the company's management has naturally urged shareholders to "take no action (i.e., deny the sale)". Nevertheless, the fact that Aphria is the target of persistent M&A interest makes an eventual buyout a real possibility.

It's still far from a foregone conclusion that Aphria will be bought out. To gauge whether it will be, we need to understand why Green Growth wants to buy the company in the first place. We can start with growth.

Revenue and earnings growth

Aphria is a fast-growing company. In Q2, the company earned [\\$21 million in net revenue](#), up from \$8.5 million in the same quarter a year before. That's a 147% year-over-year growth rate. The company grew its earnings significantly as well: net income grew to \$55 million from just \$7 million a year before. That's about 685%, although the growth in diluted EPS was more modest because the company sold shares to finance acquisitions in 2018.

Aphria's net income growth was mostly attributable to gains on its long-term investment portfolio: its operating expenses still exceeded revenue. However, this is clearly a growing company whose earnings growth exceeds the effect of equity dilution, which had previously been a huge concern.

The takeover attempt

Aphria's frothy growth has naturally attracted the attention of other companies. Last year, Green Growth Brands launched a [bid](#) to buy out the company. But when Green Growth approached Aphria management, they rejected the offer. Now, Green Growth is going directly to shareholders by encouraging them to sell.

Aphria management has reacted to Green Growth's move by imploring shareholders to take no action. In a press release, the company claimed that Green Growth's target price is a 23% discount to the company's 20-day average stock price. If that's true, then Green Growth will probably have a hard time getting Aphria shareholders to sell in the short term. If, however, there is another market downturn and Aphria gets hit, then a \$8.8 target price would be a tidy profit for shareholders — especially ones who bought in December, when Aphria fell as low as \$5. In that scenario, a successful buyout would be very likely.

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