



Is Aphria (TSX:APHA) Sinking Deeper?

Description

About a year ago, **Aphria Inc.** (TSX:APHA)(NYSE:APHA) was trading at a premium until disaster struck: then all hell broke loose. The cannabis producer has been hounded by controversies after controversies. Frankly, the entire cannabis sector and weed stocks are [hyper-volatile](#). But Aphria's case is the most baffling.

Never-ending distractions

Weak corporate governance became an issue when allegations of short-selling arose. Two equity funds even described Aphria's business model as a "black hole." The company's international acquisitions totaling \$280 million were part of a grand design perpetrated by an insider group.

The funds intended for shareholders were diverted into their own coffers. This disturbing event resulted in the broad decline of weed stock prices. Next up was the hostile takeover bid from Green Growth Brands. Although the bid was a brazen one, it favoured Aphria because the stock price soared.

Chairman Irwin Simon revealed that Green Growth insisted that shareholders accept the offer that is significantly discounted. The unsolicited offer was made in January — the month immediately following [Aphria's bout with short sellers](#).

Had the bid succeeded, it would have been the first large cross-border takeover in cannabis space. Predictably, Aphria rejected the offer. Proceeding with the deal would only destroy the value for shareholders and could have also meant Aphria's delisting on both the **TSX** and the **NYSE**.

Law of averages

Aphria managed to calm the storm and resumed normal operations. The company came back with a vengeance and announced a \$1 billion sales target, and investors digested the news with skepticism. The company said that plans will be implemented once licenses are obtained and construction projects are completed.

The Aphria One and Aphria Diamond facilities will combine to raise the annualized production capacity to 255,000 kilograms by the end of 2019. By then, Aphria will solidify its position as the third-largest cannabis producer in Canada. Also, following their mid-term plan, FY 2019 revenue would reach \$209 million.

The company forecast a meteoric 400% increase to \$1 billion by the end of next year. All the components to build scale are present. The law of averages finally caught up with Aphria that better days are ahead.

Changing fortunes

Just as Aphria is on the verge of a major comeback, another disaster looms. President Jakob Ripshtein has resigned from his post effective June 7. This time, a management reshuffle is underway.

New executive appointments will be announced very soon. No reasons for Ripshtein's resignation were given. Let's hope that he's not abandoning ship since Aphria reported a net loss of \$108.2 million in the third quarter. The gentleman was tasked to handle the company's worldwide operations. But Aphria is not ready to sink.

The company received a shot in the arm when it announced that its subsidiary, Aphria Deutschland, was awarded a fifth lot for the cultivation of medical cannabis in Germany. This could be the springboard to brisk business. Investors will again re-evaluate their positions on Aphria. In the cannabis space, fortunes can change in an instant.

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Date

2025/08/27

Date Created

2019/05/26

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