



Aurora (TSX:ACB) Just Dumped This Weed Stock: Should You Do the Same?

Description

The second-largest cannabis producer got a windfall of \$86.5 million at the expense of an industry peer. Last week, **Aurora Cannabis** ([TSX:ACB](#))(NYSE:ACB) unloaded its sizable holdings (10.5%) of **Green Organic Dutchman** (TSX:TGOD).

Was Aurora's divestment bad for TGOD? Should investors take the cue and follow suit? The company did not disclose who the buyers of the TGOD shares were. Nevertheless, Aurora made a killing from the sale of 28.8 million shares of TGOD, which it bought 50% cheaper in early 2018.

Urgent need for cash

Market analysts are speculating on what the effect of Aurora's move would be on TGOD. Some are saying that the growth prospects of the organic cannabis producer are weak, so Aurora had to cash in before the value of its investment drops.

Other observers believe it has a lot to do with newly acquired Whistler Medical Marijuana. Just like rival TGOD, Whistler sells organic certified cannabis products. Between the two, Aurora believes that Whistler, more than TGOD, would greatly help the company expand its medical and consumer product suites.

For those with a more objective view, Aurora's decision was mainly due to the need for cash. The company needs to realize the 50% internal rate of return on TGOD shares to add to its cash stockpile.

Otherwise, Aurora wouldn't have enough liquidity for future spending and to pay for its maturing unsecured convertible 5% debenture on March 2020. It was a pivotal move on the part of Aurora. But unfortunately, it might have negative implications on TGOD's future.

Aurora still holds warrants and the right to buy 16.7 million shares of TGOD. Also, with the sale, Aurora forfeits the option to purchase 20% of TGOD's future products at a 10% discount. There are rumours too that **Canadian Imperial Bank of Commerce** and **Bank of Montreal** were among the buyers of TGOD's shares.

Time to move on

Since losing a key supporter, TGOD has sunk by 21.37% to \$2.76. Maybe the falling out with Aurora was due to TGOD itself. Aurora was expecting that TGOD's Valleyfield and Hamilton facilities would not be able to deliver on time.

Aurora's CEO Terry Booth gave a justification for the decision to sell its TGOD holdings. He said, "When we acquired Whistler Medical Marijuana Corporation, an iconic and premium organic cannabis producer, our interest in TGOD became less important to our core strategy."

From another viewpoint, the dumping of TGOD could also imply that Aurora's aggressive deal-making activities in the past aren't working out. For his part, TGOD's CEO Brian Athaide said that losing Aurora would improve the company's revenue and margin potential on the sale of our premium organic cannabis.

The Investor Rights Agreement between the two cannabis firms stipulates a revenue-sharing arrangement. TGOD would have sold its premium organic cannabis to Aurora at lower average prices and margins. Athaide added that [TGOD is maturing](#) and its strategies are evolving.

Vulnerable stocks

TGOD will continue to struggle until the right investors come along. According to one news report, BMO, along with the other buyers, is having difficulty in selling TGOD shares. New institutional investors are probably waiting for TGOD to list on the NYSE or NASDAQ.

Even with the gains from TGOD shares, Aurora Cannabis remains vulnerable. The industry is in a [delicate stage](#). But one thing is sure: investing in the cannabis sector is not for the weak of heart.

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