



Aphria (TSX:APHA) and Aurora (TSX:ACB): Will the 2 Weed Heavyweights Merge?

Description

Talks are going around that **Aphria** (TSX:APHA)(NASDAQ:APHA) and **Aurora Cannabis** ([TSX:ACB](#))(NYSE:ACB), two cannabis producer heavyweights, held advanced talks regarding a merger. Canadian media reported the discussions, but the potential blockbuster deal is far from consummation.

Sources are saying that disagreements on board composition and executive compensation are stalling the dialogue. Aurora's vice-president of communications Michelle Lefler said that it's not the company's practice to comment on rumours or speculation.

Global cannabis behemoth

Aphria and Aurora Cannabis are aware that their union could create a global cannabis behemoth. A merger will instantly produce an industry leader worth \$3.5 billion. The operations are in 25 countries, along with an imposing 30% share of the recreational cannabis market in Canada, no less.

The transaction will surely shake the weed sector and could be the start of its consolidation. Some analysts believe that mergers and acquisitions in the industry will solve oversupply and open the [road to profitability](#). If Aphria and Aurora join forces, the combined annual revenue will be around \$800 million.

Better choice today

If you were to pick between the two weed stocks today, you would not touch Aurora Cannabis with a 10-foot pole. Aphria is surprisingly outperforming the general market with its year-to-date gain of 1.6%. Meanwhile, Aurora investors are losing by 55.4%. Aphria has the edge in terms of fundamental performance, which is driving investor interest.

Should the merger push through, Aphria is likely to control 51% of the new entity, with its current CEO Irwin Simon as the top man. Simon is responsible for Aphria's turnaround and quarterly profits. Aside

from a possible \$200 million cost synergies, the fusion could stop Aurora's bleeding.

Aphria is showing great promise, but Aurora is not. In the past nine months, Aphria had growth in revenue, gross profit, and net income. Aphria is a [logical choice for value investors](#) looking for a core holding in the cannabis space. Based on analysts' estimates, the price could soar by 103% to \$14 in the next 12 months.

Not a fantastic deal

Some industry analysts are scratching their heads. An Aphria-Aurora merger is not a fantastic idea at this time. The production might be too much for the current demand. Furthermore, neither of them is generating significant marijuana sales in international markets. The overseas segments of both are struggling.

A massive write-down is looming, too, given the respective balance sheets that carry significant goodwill. Aphria has \$670 million, while Aurora lugs around \$2.42 billion. Lastly, shareholder trust is lacking and needs rebuilding, particularly with Aurora. The outstanding share count of the once large-cap weed stock is swelling due to the continuous issuance of stock to raise capital.

On-hold merger

The merger talks between two prominent Canadian weed growers are off the table at the moment. Talks could resume any time if the parties can resolve issues like board composition and executive compensation.

Investors have long been waiting to see earnings growth or at least a semblance of strong earnings. The marijuana industry is still broadly losing money, and some players might not even survive due to the pandemic. A blockbuster deal might be the key to revive interest in the cannabis universe.

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