



Tilray and Aphria Merger: A Hot New Pot Stock Opportunity?

Description

Investors looking to tap cannabis for a new wave of upside should keep an eye on developments between **Aphria** (TSX:APHA)(NASDAQ:APHA) and **Tilray** ([NASDAQ:TLRY](#)). As reported by a slew of major news outlets, the two cannabis market leaders have emerged as potential bedfellows. With Tilray likely to absorb Aphria, a mega-producer could be in the making.

Market consolidation has always been a potential way forwards for this overcrowded and highly competitive space. Growth by acquisitions brings many benefits. There's the competitive edge just touched upon. There's also the possibility for strategic synergies, bolstering bottom lines by lowering costs, plus the market penetration angle.

Back in January, I wrote, "Mergers and acquisitions could mark the next phase of the marijuana investment landscape, with some potential takeover targets already emerging." I added, "This is how cannabis stocks could split, with the largest outfits swallowing up the smaller ones, increasing growth through buyouts and lowering costs through key synergies."

Of course, Aphria is far from a small outfit. But its [quality among other cannabis producers](#) is obvious and has been for some time. This is a lodestar stock, and one of the better picks in the legal marijuana space. There is little wonder that Tilray has its sights set on Aphria.

Going long on pot stocks? Watch valuations

Up 16% for the week, Tilray is not one to buy for its valuation. Selling at 5.6 times book, Tilray is overpriced for its assets. Still, year-on-year share price performance has been dire, with the stock overall down by 47%. Investors waiting for a pullback off last year's prices should be able to find plenty to pick over here, therefore. Three-month momentum has been impressive, bringing a share price bounce of 70%.

Aphria is much better value for money, with a P/B of 1.5 times book. Year-on-year share price performance is the polar opposite of Tilray's, with Aphria enjoying growth of 57%. Three-month momentum has also been solid, with a boost of 61% since the summer. And this type of momentum is

why cannabis investors keep coming back to this [volatile space](#), after all.

Cannabis mergers are the future

So, two of the most popular cannabis stocks could be about to join forces. But is Tilray really a top buy at the moment? Actually, not all of the signs point towards a Tilray-Aphria merger being an automatic buy. Among the main gripes are the potential for the merger to be less than smooth; other hiccups could come from target markets, such as the European Union. Such markets certainly show a lot of promise but are not necessarily a slam dunk.

Indeed, revenue estimates could pour more cold water on the view that the merger will create the most profitable cannabis outfit in the world. Investors may therefore want to *tread with caution* when buying shares for longer-term market dominance. Competition is likely to remain fierce in this space. Additionally, it is unlikely that this is to be the last merger in a space all but destined to be defined by future consolidations.

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