



Half-Year Update: My Top Marijuana Growth Stock for 2017

Description

Marijuana stocks recorded a massive price rally until early April 2017, but the ensuing price consolidation since then has hurt many investors, including those who got into my top marijuana growth stock, **Aurora Cannabis Inc.** ([TSX:ACB](#)), near the share price pick around \$3.28 on April 10.

Since the second week of July, momentum seems to have returned to the sector, though selectively. I am glad that Aurora is one of the top performers this month, and the stock has regained most of its lost value during the consolidation period.

While Aurora stock hasn't been spared from the broader marijuana stock disfavour, there has been great progress on the financial, operating, and expansion front that deserves being highlighted.

First to be applauded is Aurora's international expansion plan that could significantly pay off and richly reward long-term investors.

The company was a cornerstone investor in the first licensed marijuana grower in Australia, scooping a 19.9% stake in the initial public offering of **Cann Group Limited**. The Australian entity could become a serious player in the country's heavily controlled but promising medical marijuana market.

Next was Aurora's big announcement on May 26 of a \$20.9 million acquisition of Germany's top licensed cannabis distributor, Pedanios GmbH.

Germany holds a highly rewarding medical cannabis promise in Europe, and the country's health insurance policy, which allows full cover for cannabis prescriptions, could greatly propel demand for the highly priced drug in the relatively populous nation.

Furthermore, Pedanios is one of the favourites to be awarded one or more of the 10 Germany cultivation contracts for product deliveries starting in 2019. There could be great profits to be reaped in Germany where the average price per gram is significantly higher than the \$8-\$9-a-gram range in Canada.

Most noteworthy, Aurora has shown some remarkable progress on the local expansion front. The

company has registered massive growth in revenues and improved operating earnings in the local medical market.

Construction is still progressing and on schedule for the 100,000-kilogram-per-year, 800,000-square-foot Aurora Sky greenhouse project at Edmonton Airport, where partial completion and pilot growing could start late this year.

The company also made a bargain acquisition of bankrupt Peloton Pharmaceuticals back in April for \$7 million. Peloton had a 40,000-square-foot greenhouse that was about 80% complete. Aurora is finishing up construction for an additional production capacity of 3,900 kilograms per annum.

A strategic investment in **Hempco Food and Fiber Inc.** in June 2017 brings a new growth route, too.

Most interesting is Aurora's investment in cannabis oil production. Oil sales commenced in April, and Aurora achieved record-breaking sales of \$2.4 million for May, boosted by oil sales as well as dried product price increases from \$8 to \$9 a gram in the same month.

The company consolidates Pedanios's revenues starting June 1, 2017, and there could be a significant revenue jump in the coming quarterly report and for the financial year ended June 30, 2017.

I will be looking forward to some stellar revenue and operating margin improvements.

However, there could be a significant increase in financing costs as a result of the \$75 million convertible debenture, on which the first bi-annual interest payment was due on June 30. I presume most of the debentures haven't been converted yet as the share price has stayed subdued below the \$3.29 conversion price.

Aurora is currently the second-biggest marijuana stock behind **Canopy Growth Corp.** after sailing past **Aphria Inc.** and the newly listed giant **MedReleaf Corp.**

The company boasts of the biggest cash position in the industry, reaching over \$160 million in May.

I expect more expansion news from Aurora as the company increases its global footprint and positions itself for success in the recreational and medical marijuana markets.

Aurora remains my favourite marijuana growth stock, and the recent graduation to the TSX could boost investor confidence. However, Aphria's recent expansion moves, locally and in the United States, could seriously challenge that position.

Let's see how the ball plays.

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