

# Will This Top Marijuana Growth Stock's Latest Acquisitions Propel its Share Price Through 2018?

## Description

**Aurora Cannabis Inc.'s** ([TSX:ACB](#)) announcement on October 2 of its full acquisition of two private companies operating in the indoor agricultural production space was somehow a complete market surprise. These product portfolio additions could propel the marijuana stock's price as recreational cannabis consumers come aboard next year.

Aurora has acquired 100% of BC Northern Lights Enterprises Ltd. and Urban Cultivator Inc. for a total consideration of almost \$8.4 million, which includes cash and Aurora stock.

BC Northern Lights is a 16-year-old business that produces proprietary systems for high-yield indoor cannabis production, while Urban Cultivator has been supplying state-of-the-art indoor gardening appliances for the cultivation of organic micro greens, herbs, and vegetables for seven years.

Both firms shared common key shareholders and, combined, they are likely on course to generate about \$5 million in revenues for the financial year ending this month.

Do these new acquisitions fit well into Aurora's cannabis growth strategy? If so, will their revenue and profitability contribution significantly add to Aurora's performance during the next year?

## Strategic outlook

In this transaction, Aurora strongly believes that it has made a strategic move to support the expanding self-growers market.

There is some significant weight to this idea.

It has been a common analyst concern that with the coming recreational marijuana legalization, a significant proportion of the potential market may be lost to the craft grow program, where individuals may grow their own pot legally in their backyards and avoid buying from "expensive" licensed producers.

Furthermore, there is a growing number of cannabis patients shifting towards self-production of marijuana at home.

In fact, David Brown of Lift News reports that as of August 31, "there were 10,547 Canadians registered either to grow their own cannabis or as designated growers for others." This number was up 50% from the June 30th total.

Most noteworthy, Health Canada's reported patient registrations by March 31 indicated that 3.2% of all registered cannabis patients had chosen to grow their medicine at home.

British Columbia had a staggering 24.7% of all registered patients in the province who had chosen the

craft grow route. Quebec had a significant proportion of self-growers at 7.6%, while Ontario and Saskatchewan had close to average numbers.

Aurora may have seen a growing potential marijuana side-market in this space.

## **The big picture**

The proportion of self-marijuana growers may significantly expand by July 2018 with the introduction of recreational sales.

A real medical cannabis patient is not likely to be as price sensitive as a recreational marijuana consumer.

But what if almost a quarter of cannabis patients in BC chose to grow their own medicine and avoid regular monthly purchases (some of which could be insurable)? And what about a recreational marijuana buyer who has no insurable claim on purchases and has an option to buy their own grow equipment from BC Northern Lights or Urban Cultivator if legislation allows?

Aurora may enjoy some significant uptick in cannabis growing equipment sales in 2018, and the numbers could grow exponentially when recreational marijuana consumers come into the formal market by July next year.

The aggressive marijuana player wants to make sure they scoop this emerging craft grow market segment and make profits from capturing a market that may stray away from the formal marijuana store and grow a private cannabis garden for recreational treats.

## **Will the stock rally?**

Aurora may be making a brilliant move by taking a strategic position into the self-grow marijuana space through acquiring well-experienced businesses in this market front to strengthen the company's hold on the Canadian marijuana market.

The company may significantly accelerate its exponential revenue growth and quickly grow operating cash flows, but a lot will depend on how Aurora expands its core marijuana production business and show profitability improvements going forward.

We are not yet aware of the profit margins in the acquired private businesses yet, so estimating profitability growth may be a big challenge.

That said, Terry Booth (Aurora's CEO) and team are not likely interested in making charitable donations. The two target companies could not have survived for up to 16 years without being profitable, and the resultant synergies with Aurora may boost the bottom lines.

That's good for Aurora stock.

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