Aurora Cannabis Inc. Is Down 10% in the Past Month: Is Now a Good Time to Buy?

Description

Aurora Cannabis Inc. (TSX:ACB) is down more than 10% in the past month, and it could be a good opportunity for investors to buy the stock at a reduced price. The share price is trading near $10, and it hasn't been this low since early February, when we saw a big sell-off in the markets, particularly among marijuana stocks and other speculative investments.

Aurora had a strong performance in 2017 after it initially announced interest in acquiring CanniMed Therapeutics Inc., and while there was some uncertainty as to whether the companies wanted to merge, the two eventually agreed to a friendly deal.

The marijuana industry is still very fragmented, and it's likely we'll see deals like this continue to take place, as companies continue to try and add to their market share via acquisition.

However, since the start of the new year, pot stocks have failed to see the same level of hype, as investors have been taking a closer look at valuations, and it certainly didn't help when **Aphria Inc.** (TSX:APH) announced its intent to purchase a relatively unknown cannabis company for an absurd price.

Aphria has taken a big hit as a result, with its share price declining nearly 30% year to date, although in the past month it has dropped just 5%.

Aurora's drop has been excessive relative to its peers, for instance, **Canopy Growth Corp.** (TSX:WEED) has actually increased more than 11%, while Aurora'a stock has been falling.

Is Aurora's stock too expensive?

The main argument behind the sell-off is that Aurora is simply too highly priced, and that's why it has taken more of a hit than its biggest peers.

The problem with that is that valuations in the industry are being driven by hype and expectations rather than fundamental analysis. Many marijuana companies are still unprofitable and looking at a price-to-earnings ratio is not even possible.

Certainly, we can look at other multiples, like price-to-book value: Aurora is trading at a factor of 10, while Aphria and Canopy are trading at less than seven. A look at price-to-sales ratio also doesn't help Aurora's case, as the stock trades at well over 100 times its sales in the past 12 months, while both Aphria and Canopy trade at less than 80.

However, context is everything, and although these multiples may seem excessive, this is still much lower than the valuations we saw at the start of the year, where there was even less justification for the sky-high pricing.

This is why looking at pot stocks using fundamental analysis just doesn't work, because that's not what's driving the price anyway.

Is Aurora a buy today?

Early signs are that the Senate is going to approve the bill to legalize marijuana, and as long as pot is legalized this year, and there's really no reason to expect that it won't be, I expect Aurora and other pot stocks to get a boost from their current positions.

With Aurora having seen heavy selling the past month, it might even have more upside than its peers, and for that reason it could be a better buy than its peers.

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