



## Be Warned: Aurora Cannabis Inc. (TSX:ACB) Stock Is Still Facing Downward Pressure

### Description

It hasn't been a good month for pot stocks, particularly **Aurora Cannabis Inc.** ([TSX:ACB](#)). Over the past month, the company has lost approximately 27% of its value. This most recent decline is more pronounced than that of its closest peers, **Canopy Growth Corp.** and **Aphria Inc.**

Astute investors will notice that this is not a one-month blip. Aurora has been in a downward trend since the start of the year. Year-to-date, its share price has cratered 40%. In comparison, Canopy Growth has bucked the declining industry trend and is in positive territory for the year.

Yesterday, Aurora's stock fell almost 8% on the day. Is Aurora's selloff overdone? Let's take a look.

### Acquisition spree

At the heart of Aurora's struggles has been its 2018 acquisition spree. In May, the company closed on its \$1.1 billion Cannimed acquisition, the largest industry deal at the time. Less than two weeks later, Aurora one-upped itself by making a play for **MedReleaf Corp.** for \$3.2 billion.

Once it integrates MedReleaf, the company will have an industry-leading annual marijuana production capacity of 507,000 kilograms. Good news right? Not so fast.

Unfortunately for Aurora investors, their ownership is being significantly diluted by these acquisitions. In a [previous article](#), I explained how Aurora shareholders can lose out in the MedReleaf deal. Studies have shown that in all-stock deals, the acquirer significantly underperforms the company it is purchasing.

Oh, and there is a small detail that has been overlooked in these transactions. There is no lockup period for Cannimed or MedReleaf shareholders. As such, they are free to dispose of their shares on the open market immediately upon closing. Once again, this works against current Aurora investors as there can be significant selling pressure on the stock.

I'd also be remiss if I didn't mention that Aurora overpaid for these two companies. MedReleaf was acquired at a price to sales multiple of 66.17 based on full-year 2018 sales projections; that's a

significant premium.

## Technical indicators

As of today, all but one technical indicator point to a sell. Regardless of which moving average timeframe you select, the sell indicator is flashing red. The only technical indicator that provides investors with some hope is the **Relative Strength Index (RSI)**. The RSI is a momentum indicator. Traditionally, when a company's RSI dips below 30, the stock is considered to be in oversold territory. Aurora's current 14-day RSI is sitting at 28.50, which indicates that it may be due for a bounce.

## Insider selling

A recent report captured the insider selling activity of the cannabis industry, comparing the TSX's top seven companies by market capitalization. The result? Aurora Cannabis insiders have sold \$64.4 million worth of shares, which is 2.4 times more than Aphria and 3.8 times more than Canopy Growth insiders. When insiders consistently cash out, it doesn't instill confidence in the stock.

## Short-term outlook

Aurora may be due for a short-term bounce on the account of being oversold, but there are still many factors working against it. Once the MedReleaf transaction closes later this summer, there will be a flood of new shares on the market. Likewise, we may see significant selling pressure from MedReleaf shareholders as they lock in their gains. Insider selling doesn't help matters, nor does the fact that it is among the highest shorted stocks on the TSX.

Invest with caution, as the pot market is still very [much mired in uncertainty](#).

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