



Aurora Cannabis Inc. (TSX:ACB) Adds 4 More Provincial Supply Agreements

Description

Aurora Cannabis Inc. ([TSX:ACB](#)) stock has some positive momentum going for it after announcing some positive news on the back of the recently rumoured high level negotiations with **The Coca-Cola Co.**, a development I believe [could result in a strategic deal](#).

This time, Aurora has made a major breakthrough with the provinces as it announced the addition of more provincial supply agreements for the delivery of recreational use marijuana products as the legal adult use market sales debut next month.

Four new markets!

The aggressive growth cannabis player has signed new annual supply agreements with four new authorities, namely Yukon, Manitoba, Prince Edward Island and Newfoundland and Labrador, and this is huge.

How is this significant?

Before the latest news release on Tuesday, Aurora had supply arrangements with only five of the 10 provinces and territories that had announced any cannabis supply agreements with producers for the upcoming recreational market, with market leader **Canopy Growth Corp** having scored in every province so far.

Aurora's provincial wins have risen to nine, and the company now has access to about 98% of the Canadian population to present its cannabis offerings to. The wider the distribution network, the better.

At 63,000 kilograms in *revealed* contracted volumes for the first year of adult use sales, the company was closely trailing behind Canopy on contracted volumes, yet with fewer provincial wins.

The latest additions to the distribution portfolio could potentially match the leader's announced deal volumes, especially considering MedReleaf's two undisclosed contract volume deals in Alberta and British Columbia, as well as Aurora's then unannounced win in British Columbia.

That said, Ontario agreements for both companies could significantly tear them apart, just as the [Alberta deals did](#) to Aurora's portfolio. Hopefully, Ontario will come forward with contract volumes shortly, but Aurora may have significantly covered the volumes gap with the market leader.

Good for valuation

Canadian adult use cannabis sales will debut in a few weeks' time, and marijuana stock valuations are growing rapidly as the fear of missing out grips investors and a general bullish sentiment on marijuana stocks drives the price momentum on most pot-related tickers, pushing valuations high up into bubble territory.

Whether the sector is in a bubble or not remains to be seen, but the most positive factor that could sustain current stock valuations would be the expected surge in revenues (and earnings) after legal recreational sales kick in next month, allowing the players to *grow into* their valuations.

Higher volumes in provincial supply agreements may mean higher sales figures in the new market, higher operating earnings and potentially higher net profits, all else equal; if investors' valuation models consider the growth in Aurora's supply agreements as a significant potential revenue growth factor, the stock price could only creep higher on such positive news.

Investor takeaway

There isn't enough detail to fully incorporate provincial supply agreements into the valuation of cannabis stocks today, as some volumes information is missing for all players.

Some deals were for as low as 50 kilograms, such as the one **Aphria Inc.**'s subsidiary, Broken Coast, signed with Yukon, and the divergence in deal sizes between the producers in each province makes volume estimation a highly challenging task due to the potential margin of error.

Further, volumes in provincial deals are unlikely to convert into actual revenues. Everyone can only speculate on how big the cannabis adult use market shall be, and some provinces will experience higher sales growth than others.

Investors should be cautious when valuing marijuana players on the basis of supply agreements, as some provinces may alter these volumes as demand patterns emerge post October 17.

Volumes are provisional, they may change as the sales programs rollout takes shape and as the provinces gauge demand for each given product line, brand and strain while some stock keeping units, as far as Ontario is concerned, will under perform others.

That said, supply deals in themselves are a critical intangible asset that could transform cannabis productive capacity into revenue generating capacity, and the latest news is good for Aurora stock.

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