3 Red Flags From Aurora Cannabis Inc's (TSX:ACB) Q4 Results

Description

Aurora Cannabis (TSX:ACB) wrapped up its 2018 fiscal year with a bang as its fourth-quarter revenues were up more than 200% from a year ago. What's even more surprising is that the company turned a profit of just under $80 million, well in excess of its top line.

However, before you rush out to buy the stock, there are some important things to consider.

Expenses are outpacing revenue growth by a large margin

As impressive as it sounds to hear that Aurora's sales have tripled what they were a year ago, for the full year, operating expenses were up by more than 400%. And while acquisition costs were a big part of that, rising by $14 million in 2018, it was also day-to-day general administrative costs that soared, coming in at more than six times the amount that Aurora incurred in 2017.

It's likely that those costs have come from the added overhead that Aurora has brought on during the acquisitions, and we would expect to see more efficiency in future quarters. However, that will be complicated by more expansion and more acquisitions, which brings me to my next concern.

Is Aurora growing too fast?

Recreational marijuana is still weeks away from becoming legal in Canada, and you wouldn't know it from how aggressive companies like Aurora have been in trying to expand across the globe in a mad rush to grab market share and stake out positions ahead of their peers.

The problem, however, is that there's a real danger that Aurora could be spreading itself too thin and focusing on too many different markets at once. Not only is Aurora looking at Europe, but it is looking to Australia, while other cannabis companies have started to make moves in South America.

If costs are up a lot today, next year's financials might not be much better. While its aggressive growth is certainly a reason many investors have bought up Aurora's stock, it's also what could sink the company. Getting overrun with costs and trying to do too many things at once is an easy way to runinto cash constraints and other challenges.

Profits could be volatile in future quarters

In 2018, Aurora was able to net a profit of $69 million. But if not for unrealized gains from various investments, the company would have easily landed in the red. Aurora incurred a $96 million net loss from operations this year, which is nearly nine times the $11 million loss it incurred in 2017.

The problem here is that if those investments incur losses in future quarters, then Aurora's non-operating activities could weigh down the results rather than boost them up.

Bottom line

Aurora is burning a lot of cash in its pursuit of acquiring key companies and in becoming the top pot stock on the TSX. And while it may be exciting to see that sales are up and that the company recorded a profit for both the year and the quarter, investors should always take a closer look at the results, as with marijuana stocks, there's usually more to the story.

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