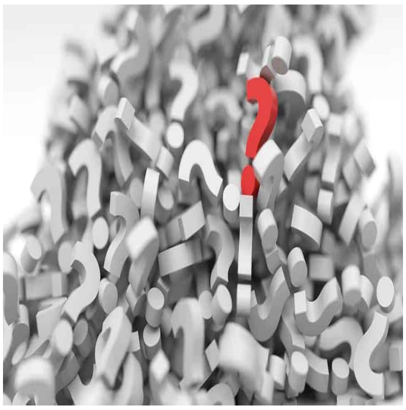

Is Aurora Cannabis Inc (TSX:ACB) a Buy After Blowout Q1 Earnings?

Description

Post-legalization cannabis earnings are starting to roll in. And, for at least one producer, it's looking like a blowout.

Yesterday, **Aurora Cannabis** (TSX:ACB)(NYSE:ACB) posted its results for the quarter ended September 30. The numbers are staggering across the board. Earnings, revenues, and margins are up. Sales are way up. Active registered patients are up. And the list just goes on and on (although there's a major caveat I'll get to shortly).

It appears that legalization accounts for why growth was so frothy in this quarter. Although September 30th was technically a few weeks before legalization, stores had already made purchase orders by that date. So, for all intents and purposes, this is a post-legalization report. And indeed, the management commentary section notes that "the commencement of adult consumer use sales in Canada has been very successful for Aurora."

And my, oh, my, what a success it was. We've got some stunning numbers to look at in this report, as well as some areas of concern. We can start by looking at the company's earnings growth.

Jaw-dropping earnings growth

In Q1 fiscal 2019, Aurora grew its earnings by 2,800%. No, that's not a typo: there really are *three* digits after that two. In Q1 2019, Aurora made about $100 million compared to just $3.5 million a year before.

Now for the bad news: those frothy earnings are mostly thanks to unrealized non-cash gains on derivatives. Once again, Aurora failed to turn a profit in terms of operating income. In fact, its operating *loss* grew to about $100 million. This the one sore spot on an earnings report marked by otherwise strong growth. But, fortunately, we can get back to the good news again because revenue was up big time in Q1 as well.

Strong revenue growth

In Q1, Aurora grew its revenue to $29 million from $8.2 million a year before. That's 260% growth, beating even its blowout 223% growth in Q4 fiscal 2018. Put simply, this is an absolutely stunning increase. However, it needs to be considered alongside the company's ballooning costs. To produce that $29 million in revenue, Aurora ran up $119 million in total expenses.

It should be noted that that $119 million includes one-time costs (like acquisitions) and costs that could be brought down (like general administrative). The actual direct cost of sales was just $9 million, resulting in gross profit off $20 million. I'm hopeful that Aurora can eventually get its costs down and turn a positive operating income soon.

Killer margins

A final point worth mentioning about Aurora's Q1 earnings report is the company's excellent margins on cannabis sales. The company earned a 70% gross margin on its these sales compared to 54% in the same quarter a year before. That's growth of about 29%. This goes to show that despite ballooning *total* expenses, Aurora is becoming leaner and meaner when it comes to its core cannabis grow operations. This may paint a rosy picture for the company, assuming it can get costs under control in other areas of the business.

I'm still hesitant to recommend Aurora shares right now, because operating income remains a big concern, but I'm more optimistic for the company's future than ever.

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