Is Aurora Cannabis Inc's (TSX:ACB) Stock Price Justifiable?

Description

Aurora Cannabis Inc (TSX:ACB)(NYSE:ACB) was one of the biggest losers in the marijuana mania of 2018. Starting off the year at $11.82, it ended it at just over half that price. This precipitous decline was sharper than that of **Canopy Growth Corp,** which despite a steep slide did not fall below its January 2nd closing price by year's end.

Aurora ended 2018 down 54% from its 12-month high. A slide that steep is remarkable in itself, but is made all the more remarkable by the fact that Aurora actually grew its revenue at an astonishing pace over the year. So is Aurora a dirt-cheap bargain at its current price, or does it remain overvalued?

First, let's take a look at the aforementioned growth, including what it means and what it doesn't.

Massive revenue growth

Aurora made headlines by posting 260% revenue growth in Q1 fiscal 2019 (note that this quarter occurred within the 2018 calendar year). Prior to that, in Q4, the company had posted 223% revenue growth. These figures mean that Aurora was growing revenue at a frightening pace in the second half of 2018. Earnings, too, seemed to be going up: in Q4, they came in at $78 million compared to a $20 million loss in the same quarter a year before.

However, things aren't quite as rosy as they seem: the vast majority of the company's earnings growth in Q4 came from unrealized non-cash gains on securities. In other words, these were not actually "bankable" cashflow-positive earnings. And worse, in the quarter, the company's operations lost $39 million–which later grew to a $110 million operating loss in Q1 fiscal 2019!

Long story short, despite all the frothy revenue growth, Aurora's operations are still losing money–and the losses are mounting. But what if the stock's price makes up for it?

Valuation

With EPS of $0.29 in the trailing 12-month period, Aurora trades at 23 times earnings. This certainly seems cheap for a company that's growing revenue at 260%, but remember, the devil is in the details: Aurora's earnings aren't mainly from cash flow, but from non-cash gains securities. This means that the company can't "bank" the earnings it has reported–nor should its shareholders expect to.

When we look the price-to-sales ratio, it appears that Aurora is actually rather expensive. The company trades at 88 times sales, a high figure by any standard, although the price-to-book ratio of 1.49 is fairly low. If I were sitting in Warren Buffett's office right now, I'd put the question of Aurora's valuation in the famous "too hard" box.

Bottom line

Aurora is an interesting case study in the fortunes and follies of the cannabis industry. The company just recently achieved positive earnings, but continues to lose money on operations. This makes its net income and diluted EPS figures hard to evaluate. If we take these numbers at face value, then Aurora is cheap according to the price/earnings and price-to-book ratios, but it is unquestionably expensive by the price-to-sales ratio. Personally, I'd wait for this company's operations to become profitable before I would confidently call it a good value.

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