



Could Aurora Cannabis Inc. (TSX:ACB) Stock Get its Mojo Back in 2019?

Description

Aurora Cannabis ([TSX:ACB](#))(NYSE:ACB) was my favourite marijuana growth stock for 2017, and it [went on to deliver](#) lucrative gains during that year, but 2018 was a different story, as both company-specific factors and a general weakness in marijuana industry equities resulted in a dismal performance.

Share price declines provide renewed opportunities for epic capital returns, as favour flows back to the industry. Could the stock get back to its winning ways and deliver life-changing returns once again in 2019?

There's some chance.

The company could show stellar execution in recreational cannabis revenue and earnings growth this year. The aggressive growth producer potentially ranks a close second to leader **Canopy** on provincial supply agreements and market reach; this places it at a better position to cement a market lead in the adult-use cannabis market.

A massive productive capacity ramp-up across its global facilities this year is expected to give the company a capacity that is double that of third-placed **Aphria**, which might have hit an annualized production run rate of over 250,000 kilograms by this January.

Aurora expects to reach a productive capacity of 150,000 kilograms per annum by the end of March this year, up from around 100,000 kilograms right now. This could boost recreational marijuana sales; more importantly, it will avail new product to feed into the hungry Europe export lines, which were severely constrained by product unavailability last year.

Latest company earnings guidance is for quarterly revenue of between \$50 and \$55 million for the just ended December 2018 quarter, up 68% sequentially and 327% higher than comparable quarterly revenue in a previous year. This revenue figure is below market expectations, but it was achieved during a period of acute supply shortages in the adult-use market. If the company can sustain such a growth rate this year and manage to become cash flow positive in the first two or three quarters of 2019, a new share price growth momentum could be witnessed on its tickers.

Most noteworthy, there is always the prospect of a significant buy-in from a big tobacco firm or beer brewer, as what happened with **Cronos Group** and Canopy in 2018. Rumours of a potential **Coca-Cola** deal have faded, but new partners for CBD-infused edibles and beverages could come into the picture this year. There have been massive share price gains when such deals are announced in such transactions.

That said, there are always some potential drawbacks.

Potential drags and dangers

A generally lukewarm to negative market sentiment and diminishing investor enthusiasm after a losing year could be bad for the broader equities market, especially so for high-risk marijuana offerings with weak fundamentals this year, as the investing community fairly prices risk; the young company may not be spared.

Moreover, high-premium acquisitions weakened the company's share price last year. There could be new acquisitions in the emerging U.S. hemp market, which has just opened after the Farm Bill of 2018, as management may not want to miss out on the new opportunity south of the border.

Most noteworthy, some investors could worry about the company's relatively slower pace to profitability due to its higher operating breakeven points, as its conglomerate structure generates higher total operating costs. The firm will likely lag behind a smaller Aphria on the race to profitability and may finally become operating cash flow positive just when a supply glut begins to dampen prices.

Operating expenses are expected to marginally increase from the previous quarter levels as MedReleaf's, Anandia Labs's, and Agropur's operating costs are fully consolidated. Operating losses may be reported for another two quarters this year, and some market players may not find this favourable.

Foolish bottom line

It is possible that the marijuana industry may trade sideways this year, as the laggards get gobbled up and the winners increase their market grip, but I am positive on Aurora right now.

We are looking at one of the most promising growth stocks in a new industry whose full potential is still seemingly beyond analyst model comprehension and whose full product depth and addressable market is still unknown. There could be significant surprises and new developments along the way that could violently shift the industry valuations in either direction.

Although acquisitions-led growth is still good but expensive, organic growth is of higher quality, more sustainable, cheaper, and more dependable, and the company could grow much more organically this

year, which may be good for its valuation going forward.

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