



## How High Will Aurora Cannabis Inc (TSX:ACB) Stock Go in 2019?

### Description

**Aurora Cannabis** ([TSX:ACB](#))(NYSE:ACB) was one of the fastest-growing cannabis stocks of 2018. Although its market return didn't match those of **Tilray** or **Canopy Growth**, it outclassed either of those stocks in one key category: revenue growth. Having [grown its revenue by 260%](#) (year over year) in Q1 fiscal 2019 and 223% in Q4 fiscal 2019, the company has been growing faster than any of its competitors. And this in an industry where 100% year-over-year growth is almost the norm!

Given Aurora's heady revenue growth, you'd think its stock would be headed for the stratosphere. But in fact, the stock was down 35% from its 12-month high as of last Friday. This raises the question of whether Aurora's stock price will ever catch up with its sales growth. To answer that question, we need to look at the difference between revenue and earnings.

### The earnings factor

In its two most recent quarters, Aurora did indeed grow revenue at a steady clip. It also technically grew earnings at a face pace, but that comes with a disclaimer. In Aurora's Q4 report, it noted net income of \$79 million compared to a \$4 million loss in the same quarter a year before. That's a big increase.

However, the report confesses that the gain was mostly due to unrealized non-cash gains on marketable securities. In terms of operating performance, the company was still losing money, as its expenses exceeded its revenue. Investors will want to look for not only positive *net* income in the company's next report, but also positive free cash flow and operating income, since these are profitability metrics that better reflect the company's cash flow situation.

### Legalization: uncertainties abound

The big question for Aurora is that of legalization. Although cannabis became legal on October 17, 2018, it's still not clear how much it impacted cannabis growers in terms of revenue and earnings. Many questions abound: will [supply shortages](#) hurt revenue? Will marketing and admin costs continue

to outgrow sales? Will big sales in Canada be enough to make a huge impact on the financial fortunes of companies that are now increasingly global in scope? Although **Aphria's** recent quarterly report provides some hints, these questions won't be answered until all the major growers release quarterly reports that include revenue from a full quarter of legal cannabis.

## The biggest quarterly report of the year?

Aurora Cannabis's Q2 fiscal 2019 report may be the most important quarterly report of 2019.

Although Aurora is not the largest cannabis company in the world, it's one of the fastest growing, and the upcoming results may set the "upper limit" on what we can expect from cannabis companies in terms of growth. Aphria has already posted two consecutive quarters with revenue growth exceeding 200%. If Q2 earnings meet guidance — the company is expecting about \$55 million — then earnings will grow at an astounding 370% from the same quarter a year before. The big question is whether the company can establish operating profits and positive free cash flow on top of that. If it does, then we could see Aurora shares reach \$15 — their peak price last year — or even higher.

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