



Why Aurora Cannabis Inc. (TSX:ACB) Skyrocketed 35% in 2019

Description

2019 has been a good year so far for marijuana stocks.

It seems positive investor sentiment has returned with a vengeance, which has taken [marijuana stocks](#) up for the ride into nosebleed territory again, as we question how high can valuations can go for this booming industry.

In 2019, **Aphria Inc.**'s (TSX:APHA)(NYSE:APHA) stock price is up 67%, and **Aurora Cannabis Inc.**'s ([TSX:ACB](#))(NYSE:ACB) stock price is up 35%.

Aphria has recovered nicely from the hit it took as a result of a [short seller](#) report that placed into the question the whole company and its operations.

This, along with its 188% increase in net revenue and its reported EPS of \$0.22, sent the stock soaring.

But we should exercise caution when interpreting the company's earnings, as it consists of gains on investments. Without this, the company reported an operating loss of \$21 million.

As for Aurora, it has also reported big increases in revenue.

In its latest quarter, Aurora reported strong sales growth, with sequential revenue growth topping 80%, and year-over-year revenue growth coming in at an impressive 363%.

Capturing approximately 20% market share in the consumer market, Aurora is benefitting from its first mover advantage in many geographies and product segments.

But with this, we are seeing costs creep up. There are some challenges that are rearing their head, and although management is saying that some of these are temporary, we should monitor the situation.

The cost per gram rose 47 cents from last quarter to \$1.92 per gram because of temporary inefficiencies as production is ramping up, as well as increased labour costs and increased investment costs in preparation of legalization.

Going forward, general and administrative costs (G&A) should be expected to rise as the company's expansion and growth continues.

Increasing research and development (R&D) costs can be expected, as the company continues its scientific research into the medical benefits of cannabis through their clinical trials and medical case studies, as well as their investment in advocacy and education.

Bottom line

Through all the volatility, the big swings up and down, how have marijuana stocks performed since legalization?

Since they began to report quarterly updates and since investors have been able to get a closer look at the businesses, valuations of Canadian marijuana stocks have fallen off a cliff.

Aphria's stock price is down 28%, and Aurora Cannabis' stock price is down 33%.

It has been easy for these companies to post revenue growth, but the problem is, turning this into operating profits has been much more difficult.

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Author

karenjennifer

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