



Could Aurora Cannabis' (TSXACB) Stock Skyrocket?

Description

Aurora Cannabis ([TSX:ACB](#))(NYSE:ACB) has been doing well recently. Since the beginning of the year, the company's stock price is up by more than 40% (at the time of writing). However, the stock market as a whole has experienced a renaissance of sorts, and other marijuana stocks have been doing just as well, if not better. By way of comparison, **Gronos Group** ([TSX:CRON](#))([NASDAQ:CRON](#)) — a company whose market cap is about half that of Aurora — saw a stock price increase of almost 90%.

It could be tempting to think of Aurora as a golden opportunity. It is currently the cheapest stock among the largest Canadian cannabis companies. But is Aurora really a good buy at current levels?

An aggressive approach

Aurora has been one of the most aggressive Cannabis companies. The Alberta-based firm obviously understands what's at stake. The cannabis industry, both in Canada and abroad, is projected to grow substantially over the next few years. In order to prepare to reap the benefits, Aurora has managed to pull off some important moves.

First, Aurora has made a series of acquisitions that have helped its production capacity go through the roof. Aurora is currently the cannabis company with the largest production capacity (when operating at full strength). Second, Aurora has managed to create an international footprint. The company acquired ICC Labs, a licensed producer of medical cannabidiol that operates in Uruguay and Colombia.

Aurora also has footprints in Europe, with an important partner that will serve as a distribution channel in Denmark. Overall, Aurora has expanded its operations to a total of 22 countries, according to the company's website. While the recreational use of marijuana is not yet legal in many parts of the world, many analysts expect this to change in the future. In the meantime, Aurora can benefit from the more lenient medical cannabis sector.

Reasons to worry

These advantages notwithstanding, though, there are at least three things going against Aurora. First, despite the potential growth of the international cannabis market, the U.S. remains a key market, one which Aurora has yet to enter. The company recently announced plans to enter the U.S., but it is a bit late as many of its competitors have already rushed in, especially after the [U.S. legalized hemp](#).

Further, Aurora is famous for its shares dilution problems. In order to finance its growth, the cannabis company had to rely on bought deal offerings — or the issuance of securities (typically in the form of common stock, stock options or convertible debentures) — in exchange for capital. Once these securities are converted to shares, it could hurt Aurora in at least two ways. More shares outstanding will decrease the price of the company's shares and will likely hurt its earnings per shares figure.

Finally, unlike other top cannabis companies, Aurora has yet to find a partner with a lot of cash and industry know-how to help spur its growth. Cronos cited above has done so with its partnership with Altria, and **Canopy Growth Corp** ([TSX:WEED](#))(NYSE:CGC) has partnered with Constellation Brands.

The bottom line

Aurora's strength stems from its Canadian operations and its international footprints. In Canada, the company's operations cover about 98% of the population. Coupled with a production capacity that is second to none, that's an important advantage for Aurora.

However, the company's share dilution problem, its lack of a partner, and the fact that it has yet to enter the U.S. market are problems which, though the company could overcome, holds it back enough for it to not be my top cannabis choice. While other cannabis stocks are more expensive, many of them are more attractive buys.

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