



Short Sellers Target Aurora Cannabis Inc. (TSX:ACB): Should You Bet Against Them?

Description

The cannabis sector has been no stranger to short-sellers over the past few years. **Aphria** was the target of a major short-selling campaign in late 2018 that pulverized its share price and led to a shake-up in its leadership. The sector has absorbed criticism from skeptics who have called into question the high valuations achieved before recreational legalization.

Back in early February I'd warned investors that cannabis stocks appeared [too hot to touch](#). Valuations for many top stocks, including **Canopy Growth** and **Cronos Group**, had spilled into overbought territory. There have still been many traders and investors who have raked in gains by investing in this volatile sector.

Aurora Cannabis ([TSX:ACB](#))(NYSE:ACB) stock had climbed 75.9% in 2019 as of close on April 3. Shares were up 22.7% over the past month. [The stock surged in mid-to-late March](#) after the company announced that billionaire investor Nelson Peltz would join the Aurora team. Peltz is a veteran in the large consumer packaged goods sector, and reports indicate that Aurora aims to use his expertise to facilitate lucrative partnerships going forward.

Canopy Growth stock surged after its partnership with the alcohol beverage giant **Constellation Brands** last year. Aurora hopes to strike a similar deal, although it is reportedly focused on securing multiple partnerships rather than a single big name.

Aurora stock fell 1.32% on April 3. The stock is now one of the most-shorted on the TSX. At the end of March, the percentage of outstanding shares on loan stood at 9.9%. Interestingly, Aurora is one of the only cannabis stocks among the highest-shorted on the TSX. Familiar names like Canopy Growth and Aphria are noticeably absent, but these stocks have also suffered sharp losses in recent weeks.

Aurora stock sat at the mid-to-high end of its 52-week range as of close on April 3. On April 2, Aurora told Canadian and U.S. regulators that it plans to raise up to \$750 million as part of a strategy to enhance its global footprint. Aurora's production capacity is tops in the industry, but it has not been able to expand its global footprint in the way that some of its top competitors have. Canopy Growth

remains the gold standard in the industry.

How should investors respond to the short interest in Aurora? Aurora stock received a long-awaited boost after its recent hire, but it still has not been able to challenge the all-time high it posted ahead of recreational legalization in the fall of 2018. The company expects revenues to ramp up with production in the second half of fiscal 2019, which comes after an encouraging earnings beat in Q2 2019.

A portion of the increased short interest in Aurora is due to its growing market cap. Larger companies are easier to short, as more shares become available. Lending rates on these shares are also lower than their small cap counterparts.

Aurora stock had an RSI of 55 as of this writing, putting it in neutral territory in early April. A breather for Aurora stock is expected after its late winter rally, but shares still have room to run on the back of what is shaping up to be a better-than-expected fiscal 2019.

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