



Warning: Steer Clear of Aurora Cannabis Inc. (TSX:ACB) Stock

Description

Two big news items this week have caught the attention of cannabis investors.

The first is that **Aurora Cannabis Inc.** ([TSX:ACB](#))(NYSE:ACB) and **Aphria Inc.** (TSX:APHA)(NYSE:APHA) have been awarded contracts by the German government to cultivate and distribute medical marijuana throughout the country.

This is clearly a big win, as it validates both cannabis companies and the quality of their medical operations as well as their international expansion plans.

The next news item comes from a cannabis research firm and its decision to lower its estimate for the Canadian cannabis market.

The estimate now stands at \$5.2 billion by 2024, down from the initial estimate of \$5.9 billion by 2022. The reasons for this lie in the distribution challenges in Canada and a very active illicit market, which is selling at much lower price points.

Obviously, it is still a booming business, but this just speaks to the whole issue of [expectations that are baked into cannabis stocks](#) and whether they are too high, which I believe they are.

With a very heavy and active news flow out of the [cannabis](#) industry and out of the different cannabis companies, it can get a little dizzying to wrap our heads around it and form our thesis.

With all this in mind, I would like to now focus on Aurora Cannabis stock, a cannabis stock that I would steer clear of for one primary reason, shareholder dilution.

Shareholder dilution is a big deal.

It's a big deal that may not get enough attention when things are "good," but as soon as markets become more risk-averse again, companies that engage in this practice will get hit hard.

While we know that companies that are in growth industries need capital to finance their growth, there

are limits to what current shareholders are willing to accept, and to how much they are willing to see their interest in the company diluted away.

Aurora Cannabis shares outstanding have more than doubled in the last year, effectively eating away at existing shareholders' holdings, and it doesn't look like this will be stopping anytime soon.

The company recently filed a prospectus to enable it to raise up to \$750 million through common shares, debt securities, subscription receipts, units, warrants, or any combination thereof during the 25 month period that the prospectus is effective.

This, combined with the mounting losses as selling, general and administrative expenses rise and research and development costs rise, as well as increased capital investment into Aurora's growth plans, make me nervous about Aurora Cannabis stock and its future path.

CATEGORY

1. Cannabis Stocks
2. Investing

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1. Cannabis

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Author

karenjennifer

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