



Aurora Cannabis Inc. (TSX:ACB): Time to Buy This Marijuana Stock?

Description

The latest round of earnings reports from Canadian cannabis producers has investors wondering which pot stocks might offer the best shot at additional upside through the end of 2019 and beyond.

Let's take a look at the current state of the sector and at **Aurora Cannabis** ([TSX:ACB](#))(NYSE:ACB) to see if the stock deserves to be on your buy list.

Ready, set, stumble

Investors drove Canadian cannabis stocks to new highs in the run-up to the launch of the recreational market last October. Those who jumped in right before the market opened quickly found out that things might not go as expected and the entire sector subsequently took a major hit.

Aurora Cannabis, for example, traded for \$15 per share on October 15. Less than two months later, the stock was below \$7. Supply shortages, high prices, and distribution issues all combined to deflate the hype and experts are now ratcheting down their sales projections for the Canadian cannabis market.

BDS Analytics, a research firm focused on the cannabis industry, just reduced its guidance for the sector from an anticipated US\$5.9 billion by 2022 to US\$5.2 billion by 2024.

Better days ahead?

The overall weakness in equity markets in December also contributed to the cannabis sector rout and the broad-based recovery we saw to start 2019 has benefitted pot stocks as well. Aurora Cannabis climbed back above \$13 per share in March and currently trades for just under \$12.

The industry is ramping up production capacity to address strong demand in both the medical and recreational market. Aurora Cannabis just announced its intention to increase the size of its Medicine Hat facility by 33%. The Aurora Sun site, which is still in development, will be 1.62 million square feet

and have the capacity to produce 230,000 kg of cannabis on an annual basis. Aurora Cannabis is targeting overall production capacity of 500,000 kg per year.

While the Canadian market is getting much of the media attention, Aurora Cannabis and its peers are setting their sights on much larger opportunities. The company is expanding its reach in Europe, where demand for medical marijuana is expanding as governments adjust their cannabis regulations. Aurora Cannabis reported its first commercial export to the U.K. in February and is expanding into Portugal. The company also recently commenced cannabis oil sales to pharmacies in Germany and is building large production facilities in Denmark.

Should you buy?

The entire cannabis sector is trading at valuations that would be considered absurd in pretty much any other industry, so investors have to be careful chasing these stocks today. At the time of writing, Aurora Cannabis has a market valuation of roughly \$12 billion. This is pretty steep for a company that had revenue of \$54 million in the last three months of 2018 and reported a net loss of just under \$240 million in the quarter.

That said, investors who are of the opinion the global cannabis market will grow as expected in the coming years might want to add a bit of Aurora Cannabis to their portfolios on the next dip. The company is one of the larger players in the sector and should come out as a winner once the anticipated consolidation results in a handful of giant companies serving the industry.

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