Is Aurora Cannabis Selling Out Its Shareholders?

Description

The cannabis market has come a long way. Only two years ago, recreational uses of marijuana were still illegal in Canada. However, the current boom in the cannabis market started then, if not before. Many of the industry's largest companies were already in play at the time. To fund their growth, though, most cannabis firms had to rely on bought-deal offerings, but none did so more than **Aurora Cannabis** (TSX:ACB)(NYSE:ACB).

A necessary evil?

Aurora is without a doubt one of the leaders in the marijuana market. One of the factors that make Aurora competitive is its production capacity. While The Edmonton-based firm produced 7,822 kilograms during its latest quarter, Aurora is currently ongoing an expansion project that will drastically increase its production capacity.

By the end of the year, Aurora should be able to produce in excess of 120,000 kilograms per year. Once all current expansion projects are through, Aurora's capacity will skyrocket to about 630,000 kilograms per year.

Further, Aurora went on a bit of an acquisition spree. In 2018, the company acquired several domestic firms, including Whistler Medical, MedReleaf, and CanniMed. At the international level, Aurora acquired Mexican firm Farmacias Magistrales, and South-America based ICC labs. Aurora spent at least $3.5 billion on these acquisitions (some of them went for undisclosed amounts).

How can a corporation that isn't yet consistently profitable afford such aggressive growth projects and acquisitions? It's simple: more than any of its peers, Aurora relied on issuing its common stock in exchange for the funds necessary to grow its operations. The company has more than $20 million in warrants, more than $40 million in stock options and more than $200 million in convertible note offerings.

Aurora is now well positioned with large and increasing production capacity, strong international operations, strong distribution channels, and the ability to profit from high-margin products. However, Aurora's share dilution problem hasn't gone unnoticed among investors and analysts.

Aurora is doing it again

Last week, Aurora announced it had filed the required paperwork in both Canada and the U.S. to raise $750 million by issuing new securities. While the details are still a bit murky, Aurora's management claims to not have any immediate plans for the capital they will raise by issuing new shares.

If Aurora's history is any indication, we can expect to see more expansion projects or perhaps an even greater increase in production capacity, more acquisition, or an expansion of its international operations.

However, the pace at which Aurora has diluted its existing outstanding shares is staggering, which could come back to haunt the company in the future. The value of its shares could be dragged down hard when the convertible notes come due, which isn't good for shareholders.

Again, while other cannabis companies have also resorted to dilutive forms of financing, none have done so nearly as much as Aurora. That may be one of the main reasons why despite its strong operations and solid growth prospects, Aurora's stock price is still relatively low.

Should you bet on Aurora?

Investing in marijuana companies probably isn't for the faint of heart. The industry is a high-risk, high-reward one. Despite its strong position within the industry, Aurora's major flaw in the form of perpetual dilutive financing is something investors should seriously consider before pulling the trigger. No doubt some investors will feel that the company's long-term prospects far outweigh this problem.

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pbakiny