Should You Buy Aurora Cannabis (TSX:ACB) After Earnings?

Description

There are few marijuana companies with a brand name as recognizable as **Aurora Cannabis** (TSX:ACB)(NYSE:ACB). The Edmonton-based pot grower is notoriously famous, particularly among millennials.

No wonder, then, that investors and analysts were holding their collective breaths in expectation of Aurora releasing its Q3 earnings report on Tuesday after the market closed. How did the company fare? Is now a good time to buy?

Revenues and production keep increasing

Aurora famously spent a good deal of funds increasing its production capacity. Indeed, the desire to dominate this particular aspect of the marijuana industry is partly responsible for Aurora aggressively resorting to dilutive forms of financing, much more so than most of its peers.

Aurora took a risk in doing so, but this gamble seems to be paying dividends, at least for now. During the third quarter, Aurora's production soared by 99% compared to the previous quarter. Aurora annualized production exceeds the 150,000-kilogram mark, which is still a far cry from its estimated peak production capacity.

Aurora's revenues are following suit. The firm reported gross revenues of $75.2 million, a 21% increase from the previous quarter and a 357% increase year over. The company's net revenue was $65.1 million — a 20% increase from the previous quarter and a 305% increase year over year.

Interestingly enough, Aurora's medical and recreational sales were equal, each representing about 50% of revenues. Aurora's long-term strategy is to focus on the medical marijuana market, a higher-margin opportunity than its recreational counterpart. Cannabis oil accounted for about 20% of the firm's sales.

The international market also brought some decent news for Aurora, with sales of $4 million coming from abroad — a 40% increase from the previous quarter. Aurora is one of the pot companies with the most significant international presence, and this figure will likely keep on rising in future quarters.

The bad

Despite making some headway, Aurora is still not profitable. The company reported an operating loss of $77.6 million (including some adjustments) and a net loss of $160.1 million. Aurora’s net loss was an improvement from the previous quarter, but a significant decrease year over year.

Red ink at the bottom of Aurora’s income statement hardly comes as a surprise to anyone. That isn’t the worst thing on its most recent earnings report. The company’s net selling price per gram did decrease by about 5%, which does not bode very well to investors.

On this front, Aurora is probably feeling the effects of the fact that the recreational marijuana market is very competitive. There are no shortages of options for consumers, which is likely dragging prices down. This (once again) highlights the importance of alternative high-margin markets as well as having a strong worldwide presence.

Should you buy?

Overall, Aurora seems to be well on track to executing its master plan, though this particular quarter fell a bit short of expectations. As the firm’s production capacity continues to increase, and the cost to produce cannabis falls (as it did by 26% during Q3), Aurora should keep growing its revenues.

Aurora’s international presence wasn’t really felt during this quarter; though sales abroad rose by 40%, they still represented less than 10% of total sales.

In short, Aurora still has much room for growth. Top management expects the company to be profitable on an operational basis during the next quarter. Aurora’s strategic partnership with Nelson Peltz has yet to bear fruits in the form of a partnership with a big-name company.

While a lot can still go wrong, if all the chips fall in the right places, Aurora’s stock could skyrocket. No wonder the firm is increasingly getting buy ratings from various analysts, despite its astonishingly high number of outstanding shares.

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