



Why Aurora Cannabis (TSX:ACB) Stock Is Headed for All-Time Highs Over the Next Year

Description

Aurora Cannabis ([TSX:ACB](#))(NYSE:ACB) is the second-largest cannabis company listed on the TSX going by market cap. Shares of Aurora were up 0.43% in late-morning trading on May 22. The stock has jumped 71% in 2019 so far.

Aurora reached an all-time high immediately before recreational cannabis legalization in mid-October 2018. The stock suffered a sharp retreat afterwards and bottomed out in the final weeks of 2018. Cannabis stocks have broadly performed well in 2019, even as slumping sales have weighed on the earnings of some of the largest producers. This environment has [attracted the interest of short-sellers](#).

Investors should be excited about Aurora's prospects going forward. It is well positioned to secure large verticals with companies after its big March hire. A production ramp-up and a maturation of its business means that Aurora is on track to achieve profitability in the near future.

Aurora released its third-quarter 2019 results on May 14. Production volume at Aurora increased 99% from the prior quarter and 1,200% year over year to 15,590 kilograms. As expected, Aurora's production is ramping up and the majority was harvested in the latter half of Q3 2019. Average selling price per gram decreased marginally due to product mix and extraction capacity constraints. Cash cost per gram dropped 26% to \$1.42.

Adjusted EBITDA loss improved by 20% to \$36.6 million with Aurora intensely focused on profitability. It grew its medical patient base by 5% to 77,316. Investors will be hoping it can increase its proportion of recreational sales going forward. Right now, the company is churning ahead at a 50/50 split, while companies like **Canopy Growth** now derive a comfortable majority of sales revenue from recreational consumers.

Some analysts are confident that Aurora will post its first positive EBITDA in Q4 2019. Production is expected to aggressively ramp up in the final months of the year. Does that mean Aurora stock will rise to new heights?

Aurora's [recent run-up](#) was largely due to the addition of Nelson Peltz as a strategic advisor. There is hope that Peltz will be able to facilitate lucrative partnerships for Aurora, as it has yet to make the kind of splash other producers have made. Canopy Growth secured a multi-billion partnership with alcohol giant **Constellation Brands** last year, which sparked a huge run-up for the stock.

Aurora CCO Cam Battley recently revealed that Aurora planned to follow its peers **Tilray** and Canopy Growth with a push into the U.S. market. U.S. federal law still bans recreational cannabis, but producers are betting on movement in this area in the coming years. The U.S. cannabis market would be one of the most valuable in the world if it moves forward with broader legalization.

Battley has said that Aurora would look to structure deals like Canopy's tentative agreement to acquire Acreage Holdings. This way Aurora can avoid violating exchange rules while setting the table in preparation for U.S. legalization. The company hopes to fund future deals on the back of improved cash flow instead of relying on large share issuances.

Aurora stock is currently trading around the middle of its 52-week range. Like most in this sector, Aurora is a speculative buy, but there is reason for optimism as Q4 2019 is shaping up to be a big one for the company.

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