Why Aurora Cannabis (TSX:ACB) Stock Looks Like a Bargain Today

Description

Just over three months ago, I'd warned investors that the cannabis sector looked especially shaky in the middle of spring. At the time, industry experts and analysts were issuing warnings about earnings for top producers. Recreational sales disappointed in 2019 after a hot start following legalization in October 2018.

The crisis at **CannTrust** has exacerbated these problems and cast a shadow over the young sector. **Horizons Marijuana Life Sciences ETF** (TSX:HMMJ) has plunged 20% over the past month as of close on July 24. So, should investors be fearful or greedy as volatility strikes cannabis stocks?

In the case of **Aurora Cannabis** (TSX:ACB)(NYSE:ACB), I would argue for the latter approach. Aurora stock has plummeted 30% over the past three months. This recent dip has pushed shares into the low end of its 52-week range. The stock had an RSI of 32 as of close on July 24, which puts Aurora just outside technically oversold territory.

Aurora and other top producers have ramped up production in 2019, but these companies are still a long way off full capacity. In its most quarterly report, Aurora revealed that it had more than doubled production to 15,590 kilograms in Q3 2019. Cash cost per gram dropped 7% to $1.42 compared to $1.53 in the prior-year period. Net revenues came in at $65.2 million, which fell below analyst expectations.

Cash concerns

The big fear for Aurora right now is its precarious cash position. Some analysts, like those at **Bank of America** Merrill Lynch, are projecting that Aurora could burn through its cash reserves and be "cash negative" by the first quarter of next year. There is a growing belief that Aurora will be forced to pursue extra financing to dig out of this hole.

Shareholders will not be thrilled with dilution, but Aurora has other outs. In its Q3 2019 earnings report, Aurora predicted that its operating loss will continue to shrink late into the fiscal year. It also projected that it will achieve positive EBITDA by the next quarter. Investors will be waiting anxiously for its next earnings report, which is expected sometime in September.

Fears over Aurora overreaching have been present since its early acquisitions of CanniMed and MedReleaf in 2017 and 2018. Critics also pointed to its inexperienced management. In this regard, Aurora has exceeded expectations. It has proven to be above board on the operational side, and it has consistently met production targets. The company received some good news in late July after it secured a two-year contract to supply medical cannabis to the heavily regulated Italian market.

Aurora has put pressure on itself to achieve a strong finish to the current fiscal year. In early May, I'd warned investors about Aurora's valuation ahead of its earnings release. Its next report is roughly two months away, but I'm much higher on Aurora in the final days of July. Aurora is still a risk in this volatile market, but it is one worth taking for its growth potential.

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Date
2025/08/13
Date Created
2019/07/25
Author
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