Aurora Cannabis (TSX:ACB): Do You Need to Buy the Stock Before Upcoming Earnings?

Description

Leading cannabis producer **Aurora Cannabis** (TSX:ACB)(NYSE:ACB) will be announcing its fiscal fourth-quarter 2019 (year ended in June) results next month. Aurora Cannabis stock has been in a downward spiral in the last few months. Since March 18 this year, ACB shares have declined close to 40% and have burnt significant investor wealth.

The upcoming earnings remain critical for Aurora's stock price. If the company misses estimates or provides tepid guidance, the stock will lose significant value. Analysts expect Aurora to post revenue of $112.7 million — a rise of 488.6% year over year. Its adjusted earnings per share (EPS) is estimated to rise by 66.7% to -$0.05.

In the fourth quarter of 2018, Aurora reported revenue of $19.15 million and earnings of -$0.15. Aurora has managed to beat analyst earnings estimates just once in the last four quarters. In the third quarter of 2019, Aurora reported earnings 166.7% below analyst estimates of -$0.06. In the second quarter, it reported earnings of -$0.25, which were 316.7% below estimates of -$0.06.

Aurora beat first-quarter estimates of -$0.04 by 400% and reported EPS of $0.12. In the fourth quarter of 2018, Aurora's earnings were 400% below estimates of -$0.03.

Can Aurora Cannabis stock stage a comeback?

Aurora was recently downgraded by Bank of America from "buy" to "neutral." Bank of America raised concerns over Aurora's cash burn and negative profit margins. These concerns are legitimate, as the company's bottom line is estimated to fall by a significant 45.8% in fiscal 2019. This is despite a 381.4% rise in sales, indicating a very low operating leverage.

Aurora also has a cash balance of $535.17 million, while its total debt stands at $639.1 million at the end of the third quarter. If Aurora runs out of cash, it will need to raise more capital and might dilute the current investor holding.

There are encouraging signs for Aurora

While Aurora has been impacted by a significant decline in profit margins, the company's management has stated that operating loss will shrink in the upcoming quarters. We can already see that Aurora earnings are estimated to rise by 66.7% in the fourth quarter compared to a decline of 45.8% in fiscal 2019. Aurora has also forecast to achieve positive EBITDA in the fourth quarter.

Yes, Aurora has been overly aggressive in terms of inorganic growth. Investors and analysts were concerned when it acquired CanniMed in 2017 and MedReleaf in 2018. It has, in fact, acquired 18 companies in the last three years. But Aurora will be a solid bet if it successfully manages to integrate these companies over time.

International expansion

Aurora is a domestic heavyweight and is now eyeing international expansion. It is already active in 25 countries. It is a market leader in the medical cannabis space in Europe and Latin America. The company has 40 clinical studies and served close to 80,000 patients.

Aurora's acquisitions have helped it to grow production capacities by four times in the last year. Aurora sales have increased at a mind-boggling rate. Revenue has risen from $18 million in 2017 to $55 million in 2018. It's estimated to reach $267 million in 2019, $721 million in 2020 and $1.268 billion in 2021. A sales growth of almost 7,000% in four years is truly extraordinary.

It has a competitive edge among peers, as Aurora has snared exclusive government supply contracts with Brazil, Italy, Germany, and Australia. It successfully managed to enter a highly regulated market in Italy and bagged a two-year contract to supply 400 kilograms of cannabis.

Further, Aurora is also expanding through partnerships. Last week, Aurora and Ultimate Fighting Championship announced a research and development partnership. The two will "co-sponsor a clinical research program to explore uses for hemp-derived CBD."

Huge market opportunity

Aurora's growth story remains solid. It is already a market leader in terms of production capacity. The company has estimated the total addressable market at $200 billion and expects global disruption across beverages, pharma, and tobacco industries. Aurora investors need to buy this stock at every dip.

The recent pullback provides an interesting opportunity, as the stock is currently trading in oversold territory. Aurora Cannabis has a 12-month average target price of $13.63, indicating an upside potential of 68% from the current price.

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