Where Will Aurora Cannabis (TSX:ACB) Be in 5 Years?

Description

Aurora Cannabis Inc (TSX:ACB)(NYSE:ACB) is one of many weed stocks that fell from grace in mid-late 2019. After reaching a high of $13.26 in March, it began a steep, months long tumble, at one point falling as low as $7.78.

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In August, the stock has been on a minor upswing, having regained about 11% of its value since the start of the month, but it remains way down from its 52 week highs.

Marijuana stocks are known for their volatility, and Aurora is no exception. With a beta coefficient of 2.59, it's more than twice as volatile as the **TSX** index, which makes trying to anticipate future prices for the stock difficult.

However, it's possible to gauge whether the ACB's long term trajectory will be positive or negative. We can start with the company's most recent financial results.

Huge growth, but continued losses

In all of its recent quarters, Aurora has posted massive year-over-year revenue growth. In Q3, for example, it reported $75 million in sales, up 367% from the same quarter a year before and 21% from the prior quarter.

That's impressive growth, but it should be mentioned that the company continues to run large losses: in Q3, the loss attributable to shareholders stood at $158 million. The good news is that this loss was down from Q2, when the company lost $237 million.

However, it's still enormous as a percentage of revenue.

Digging deeper

When evaluating profits and losses in a company like Aurora, it makes sense to separate net results from operating results. After all, cannabis companies own huge amounts of biological assets, whose fair value can be re-assessed resulting in financial losses that don't reflect operating performance.

In Aurora's case, the most recent quarter's operating loss was $75 million–far lower than its net loss and also less than revenue. The operating loss is also down from Q1, when the company lost $96 million from operations.

These results would tend to predict a slimming of long-term losses and perhaps a gradual move toward profitability.

Valuation

Now we get to the bad news:

At current prices, Aurora stock costs about 53 times (ttm) sales, making it an extraordinarily expensive stock even with all the revenue growth it's been seeing.

Although the price-to-book ratio of 2 is not insanely high, we've got a stock here that's not generating positive earnings and whose price-to-sales ratio would be high even if it were a P/E ratio.

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At minimum, this indicates that Aurora will need to keep up its six figure revenue growth for a long time to justify its price.

Given all that, it seems fairly unlikely that Aurora will keep up its past returns over the next five years. The stock has gotten extremely expensive and although its revenue growth is sky high, it will probably slow down once the 'legalization boost' slips further and further from view.

Remember that in Aurora's 2019 quarterly reports, it compares post-legalization sales to pre-legalization sales. Once legalization is a full year into the past, the company's revenue growth will almost certainly decelerate.

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2019/08/14
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