



Why Investors Need to Bet on This 1 Cannabis Stock

Description

Aurora Cannabis ([TSX:ACB](#))(NYSE:ACB) stock is on the verge of a breakout. It has burnt significant investor wealth in the last 10 months. Aurora investors have lost over 37% since October 2018. Several cannabis stocks were overvalued at the end of last year, just before Canada regularized marijuana for recreational purposes.

After that euphoria died down, cannabis stocks fell significantly. Shares of peer companies such as **Canopy Growth**, **Tilray**, and **Aphria** have lost 41%, 74%, and 52%, respectively, since the start of October 2018. So, will Aurora shares move higher in the coming months?

Aurora Cannabis has gained 312% since IPO

Despite the pullback starting last October, Aurora shares have gained 312% since its IPO back in October 2016. This means Aurora stock rose by a stellar 550% between October 2016 and 2018. While there have been regulatory issues plaguing cannabis companies of late, their growth story remains far from over.

The cannabis industry is still in the nascent stage of growth. Statista estimates the global legal cannabis spending to reach \$63.5 billion in 2024, up from \$24.4 billion in 2019. This indicates a compound annual growth rate of 21%. Aurora Cannabis will be at the forefront of this growth. It will, in fact, easily outpace market growth in the coming years.

Analysts expect Aurora Cannabis sales to rise by 370% to \$259.4 million in 2019, 174% to \$710 million in 2020, and 74% to \$1.21 billion in 2021.

Aurora expected to release fourth-quarter earnings next month

Aurora Cannabis is expected to release its fiscal fourth-quarter 2019 results (quarter ended in June) on September 15. Last week, the company released preliminary results and estimated sales between \$100 million and \$107 million for the fourth quarter. This is slightly lower than analyst sales estimates

of \$108.7 million.

In case Aurora reports sales of \$104 million (its midpoint estimate) in Q4 2019, it will mean a year-over-year growth of 443%. Aurora estimated 2019 sales of \$250 million, a rise of 353% year over year.

Key drivers for Aurora Cannabis stock

Aurora is banking on international expansion to drive revenue growth. Aurora products are available in 25 countries, and the company already leads the [European and Latin American markets](#) in the medical cannabis segment.

Its inorganic growth via acquisitions has resulted in an increase in production capacities by four times. Aurora has acquired 18 companies in the last two years. Its production capacity is expected to increase from 150,000 kilograms per year in 2019 to 625,000 kilograms per year in 2020.

Aurora Cannabis has estimated the total addressable market at \$200 billion. The company has valued the Canadian medical cannabis market at \$3 billion and the global medical cannabis market at \$70 billion. The Canadian consumer market is valued at \$9 billion, while the global consumer market is valued at \$115 billion.

There are concerns [over Aurora's cash burn](#). Bank of America is worried over Aurora's cash outflow and downgraded the stock from "buy" to "neutral." Aurora's bottom line is estimated to fall by 46% in 2019. High-growth companies need to invest heavily in capital expenditure, acquisitions, and product marketing, all of which has been undertaken by Aurora's management.

However, there will be a significant improvement in profit margins going forward. Aurora's net margin is estimated to improve from -16% in 2020 to 6.5% in 2021. A high-growth, profitable company is a dream for investors. This growth trajectory could result in massive returns for shareholders.

Analysts have a 12-month average target price of \$13.55 for Aurora Cannabis, indicating an upside potential of 55% from the current price.

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