



The Big Problem With Investing in Aurora Cannabis (TSX:ACB) Today

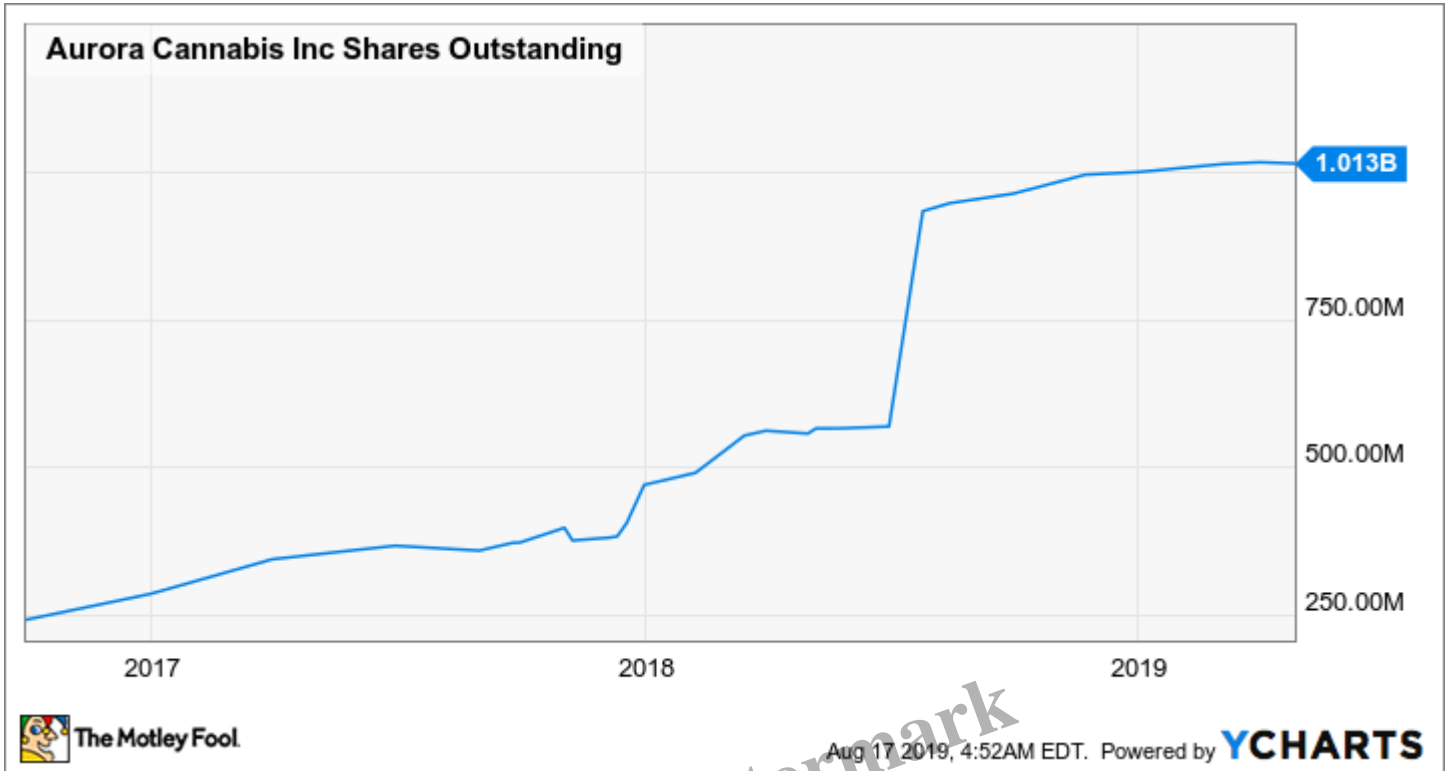
Description

Aurora Cannabis ([TSX:ACB](#))(NYSE:ACB) is expected to release its quarterly results next month. And with strong revenue numbers per the company's [most recent update](#), it might be on its way to becoming the top cannabis company in Canada.

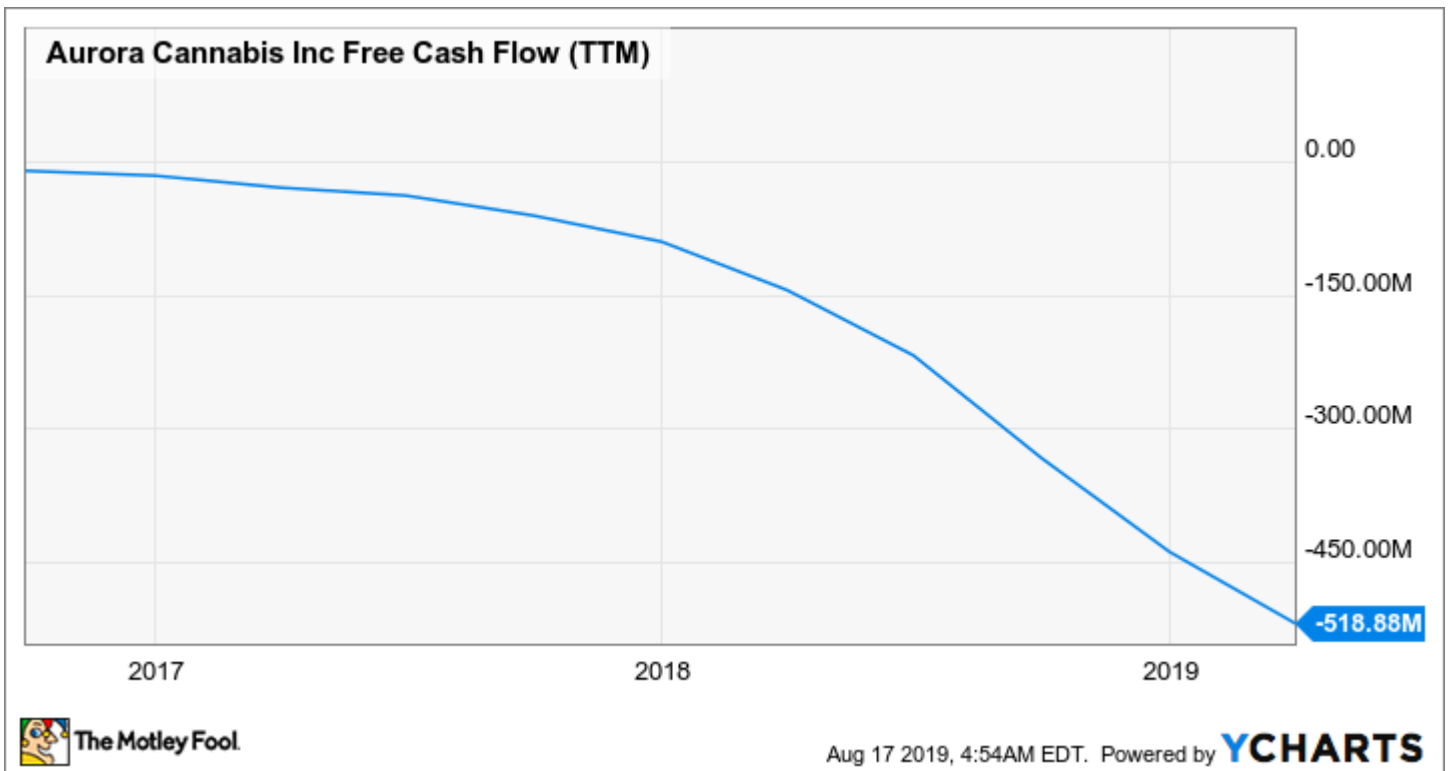
As good as the company's prospects may look, especially with edibles soon to be legalized, the stock may still not be a good investment to make today. Although sales may continue to grow, and even if EBITDA improves, what likely won't make enough an improvement is the company's cash flow. Cash is an important consideration for many reasons.

By not being able to generate cash flow from its operations, that means that Aurora will have to find other ways to do so. And rather than issuing debt and having to face restrictions on what it can and cannot do while also paying interest charges, it can be a lot more attractive to simply issue more shares. From the point of view of a shareholder, however, that's bad news, as it results in dilution and can keep the share price from rising.

Here's a quick look at the company's shares over the past few years:



Those are some pretty significant increases, and the problem is that as the company continues its aggressive expansion around the world, those cash needs may only rise in future periods. The company has already been burning through cash at a rapid rate:



Especially with the cannabis industry in Canada still facing some roadblocks relating to supply issues, we still haven't seen the market fully develop and realize its potential. While there will be more growth opportunities ahead for Aurora, they will also put more of a strain on the company's cash position.

Why the situation could get worse

What complicates things today is that investors are just not as optimistic about cannabis as they were in the past. The **CannTrust scandal** is one example where investors are likely a bit more on edge now, worrying about if the pot stock they invested in is following regulations.

And even though the scandal has nothing to do with Aurora, the perception of the industry has been impacted, and that's going to weigh on all marijuana stocks.

If stock prices do not see a big recovery soon, then that means a company like Aurora will have to issue more shares to raise the same amount of cash as it did in the past, and that will have even more of a dilutive effect on existing shareholders.

That's where the situation could get much more dire for Aurora and other cannabis companies, as cash becomes harder to source.

Bottom line

Until Aurora can consistently generate positive cash flow from its operations, investors can expect to see more shares being issued and the stock continuing to struggle to gain momentum. While it may be tempting to buy into the stock's growth potential, the safer approach may be to wait until the company has established a much more stable business.

CATEGORY

1. Cannabis Stocks
2. Investing

POST TAG

1. Cannabis

TICKERS GLOBAL

1. NASDAQ:ACB (Aurora Cannabis)
2. TSX:ACB (Aurora Cannabis)

PARTNER-FEEDS

1. Msn
2. Newscred
3. Sharewise
4. Yahoo CA

Category

1. Cannabis Stocks
2. Investing

Tags

1. Cannabis

Date

2025/09/30

Date Created

2019/08/24

Author

djagielski

default watermark

default watermark