Here’s Why Aurora Cannabis (TSX:ACB) Stock Is a Bargain

Description

Aurora Cannabis (TSX:ACB)(NYSE:ACB) stock has dropped 32.6% over the past three months as of close on August 29. Cannabis stocks have been hit with turbulence since the middle of spring, and Aurora has not been spared. Sales have disappointed in 2019 as we approach the one-year anniversary of the legalization of recreational cannabis. Canada is set to move forward with legalization of edibles in October of this year.

It has been a mixed bag for the top producers in earnings season. Aurora beat expectations with its third-quarter report in May. Revenue surged 363% year over year to $54.2 million. The company estimated that its recreational cannabis sales accounted for 20% of all consumer sales across the country.

Canada’s recreational roll-out has been plagued by several issues. Canadians have continued to buy cannabis from the black market, largely due to price advantages and availability. Populous provinces like Ontario and Quebec have failed to adequately expand the brick-and-mortar retail footprint, although supply issues have also hamstrung policy makers and the private sector.

Why Aurora is on my radar right now

This week, I’d discussed two cannabis stocks that looked oversold. Aurora stock had an RSI of 34 as of close on August 29. This puts shares just outside technically oversold territory.

Aurora brought investor Nelson Peltz on board as a strategic advisor back in March. There were hopes that this would facilitate a significant partnership in the near term. **Canopy Growth’s** big splash with **Constellation Brands** sparked a huge rally for the stock, but it has retreated and lengthened its time horizon to profitability. Aurora’s management has said that they are targeting multiple potential partnerships rather than one big fish.

In late August, the company announced the completion of its plan of arrangement with Hempco Food and Fibre. This grants Aurora access to low-cost, high-volume hemp material for the extraction of cannabidiol (CBD). CBD has exploded in popularity and offers nice growth in the attractive nutrition and supplements space.

Earlier in August, Aurora provided an update ahead of its fourth-quarter and full-year results for fiscal 2019. It is expected to release this earnings report on September 15. The company is projecting net revenues between $100 million and $107 million in the quarter, with total net revenues for the year in a range of $249 million to $256 million.

Aurora is set to post growth across its major segments, and it still expects production capacity to hit 150,000 kilograms annually by the end of 2019. Supply issues in Canada are expected to dissipate early next decade, and like other top producers, Aurora is turning its attention to international markets. The company and its subsidiaries are already active in 24 countries worldwide. The construction of its European production site, Aurora Nordic 2, will provide it with a promising footprint on a continent where the cannabis market is set to explode.

Shares of Aurora are still trading at the low end of its 52-week range. Cannabis has been throttled in the late spring and summer, but I expect the industry to bounce back in the near term. Aurora shares are well positioned to rebound with it.

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