



## Marijuana Investors: Why Aurora Cannabis (TSX:ACB) May Actually Be the Cheapest Stock on the TSX Index

### Description

You've probably heard of value traps — seemingly cheap stocks with ridiculously low valuation metrics that are anything but. Troubled businesses with decaying fundamentals can appear cheap, but relative to their growth prospects, they may be absurdly expensive and leave investors at risk of substantial downside.

What you may not have heard of are stocks that seem ridiculously expensive but are actually [screaming bargains](#). I'm not sure if there's a word dedicated for such stocks, but let's call it a fundamental bear trap, even though the term *bear trap* actually denotes a technical pattern.

One such stock that I believe is an expensive-looking stock that is actually [severely undervalued](#) given its growth prospects is **Aurora Cannabis** ([TSX:ACB](#))(NYSE:ACB).

The Edmonton-based cannabis kingpin is a rapidly growing company that few investors (or analysts) can get a firm grasp of. The industry is hazy and the valuation is out of this world, but the growth potential is also just as unfathomable.

While pot stocks aren't everybody's cup of tea, I do believe that such names that seem way overvalued, like Aurora Cannabis and its 43.6 times sales multiple, may be suitable for value investors with long-term investment horizons, even though pot stocks have always been a trader's playground.

### A weak quarter — or was it?

At the time of writing, Aurora is down by over 10% in after-hours trading following the release of its fourth-quarter results that fell short of expectations on the revenue front.

Revenues rose to \$98.9 million, missing the Street consensus of \$108.3 million. Although sales were up triple digits on a year-over-year basis, investors were expecting a bit too much from the cannabis kingpin that's on the right track when it comes to the pathway to profitability.

Management seems optimistic that Aurora is going to be profitable in 2020, but given the moves, many investors seem to think it's all smoke and mirrors.

In any case, the quarter was more mixed than the after-hours move in the stock would suggest. The average net selling price of cannabis continues to fall, and while the stock will continue to be a roller-coaster ride over the next few weeks, Aurora stock is a strong buy because it looks cheap at \$8 and change relative to its very encouraging growth prospects and overlooked progress made in the latest quarter.

Yes, there's uncertainty on the horizon, but as the industry matures, I do see Aurora as one of the market leaders that'll command triple-digit growth over the medium term and high double-digit growth over the extremely long run, as the international taboo on cannabis slowly but surely fades.

After shedding nearly half its value, Aurora Cannabis is finally a [value investment](#) and not a speculation that Fools should feel confident buying on the post-earnings dip.

Foolish takeaway

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## Author

joefrenette

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