Why You Should Buy This Stock on Analyst Downgrades

Description

Sometimes, analyst downgrades are actually a buy opportunity in disguise. Take, for example, last month's 9% loss in value on **Aurora Cannabis** (TSX:ACB)(NYSE:ACB) stock. A few analysts have slashed price targets on Aurora and downgraded the stock to a sell rating.

As a result, many investors have turned on this cheap high-growth stock nearing profitability for all the wrong reasons. Canadian investors should take these downgrades with a grain of salt. Aurora shares are still a steal at the price of $7.11 at writing.

Buying now and holding for the next few years will yield fantastic returns as cannabis legalization expands throughout Canada and the United States. Here's why.

Aurora perfectly balances growth and profitability

At the forefront of marijuana stock valuations are growth rates. Sales growth and change in production costs are the two most critical points of analysis when determining the quality of a pot stock.

Aurora Cannabis, one of the most competitive Canadian cannabis corporations, reported outstanding improvement in sales, EBITDA, and profit margins on its latest earnings report in September.

On its last earnings release, Aurora improved its adjusted EBITDA by 68%. Although it's still in negative territory at $11.7 million, that's not alarming for an aggressively growing company. Last year, Aurora needed to double its debt load to compete with **Canopy Growth**.

Now that Aurora has reached supreme heights, the company is committed to stemming last year's strategic double-down on debt and, instead refocus on long-term viability.

Unambiguously, Aurora's leadership outlined its renewed concentration on risk maintenance: "Aurora will take a balanced approach to these investments with a focus on operating a sustainable and profitable business." Aurora is prioritizing sustainable growth while moving toward profitability.

Companies like Canopy Growth and **Uber** are losing billions of dollars at alarming rates and becoming heavily indebted.

By contrast, Aurora's long-term debt load is not even 47% of Canopy Growth's $842 million debt burden as of March 2019. Aurora is in a better financial position than its competitor Canopy Growth and maintains a higher market share than many other competitors.

Aurora Cannabis sales are soaring

Aurora reported by far the most substantial increase in sales out of all Canada's marijuana corporations. In the past year alone, Aurora increased cannabis sales by 629% to 57,442 kilograms from 36,628 kilograms. Revenue increased 349% from the prior year to $247.9 million.

Aurora's brilliant wholesale pricing strategy in part fueled its remarkable sales growth. In an aggressive move to capture market share in the wholesale segment, Aurora lowered their prices on cannabis. Based on its superior sales growth, the strategy worked, and investors should take notice.

Moreover, although the company decreased its per gram sales price to $5.32 in Q4 2019 from $6.40 in Q3, Aurora still managed to increase its margins by improving its production costs.

Aurora's cash cost to produce declined by 20%, according to its most recent earnings release. In effect, Aurora grew its gross margin on cannabis by 3% to 58%.

Regardless of how analysts have rated Aurora Cannabis, the resulting dip in stock price is an excellent buy opportunity for savvy Canadian investors looking to increase their holdings of high-return marijuana stocks.

As Warren Buffett says, "Be fearful when others are greedy and greedy when others are fearful." In other words, buy when others are selling and sell when others are buying.

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