Contrarian Investors: Is Aurora Cannabis (TSX:ACB) Stock a Buy?

Description

With equity markets trading near all-time highs, contrarian investors are searching for troubled stocks that have fallen out of favour and might offer a shot at some big gains on a turnaround.

Let's take a look at **Aurora Cannabis** (TSX:ACB)(NYSE:ACB) to see if it deserves to be on your buy list today.

Tough run

Aurora Cannabis trades at $6.50 per share right now, down 50% in the past six months.

The drop is primarily due to a general pullback in the entire cannabis sector, as investors try to digest the fallout from companies running into trouble with regulators for not following the rules.

The absence of profits is also starting to force investors to rethink how much they want to pay for the shares of a marijuana company that continues to burn through cash.

The rapid emergence of the Canadian marijuana industry and pressures to get as much product to market as quickly as possible likely led to some of the bad decisions that have hit the sector in the past year. **Namaste**, **Aphria**, and, more recently, **CannTrust** have all run into trouble for issues ranging from self-dealing to growing plants in unlicensed facilities.

Investors might be wondering if these are isolated incidents or simply the start of more surprises to come from other players. As a result, many might be stepping back from pot stocks.

Regarding Aurora Cannabis, the company is one of the top two players in Canada and has grown significantly through a series of aggressive acquisitions. The recent extension of the slide in the stock price is due to weak results in the latest quarter.

Aurora missed revenue expectations, even after giving the market a heads up last month. In addition, the company pushed out its guidance for reaching profitability to some time in fiscal 2020. Net revenue in the most recent quarter came in at roughly $99 million compared to the $108 million expected by analysts who follow the stock.

Risk

Aurora Cannabis still has a market capitalization of $6.8 billion, which is steep for a company with annualized revenue of about $400 million and no profits. The downward trend in the stock might continue, as investors reset their expectations for the timing of the company's move to profitability.

Determining the upside potential for earnings growth in the next few years is a challenge, and the market might not be willing to pay such a rich premium.

In addition, investors are not happy that the rollout of the recreational market in Canada has not gone very well, and people are hesitant to make big bets ahead of the launch of the edibles market. If edibles sales don't go well, another steep leg to the downside could be on the way for Aurora Cannabis and its peers.

Opportunity

The negative sentiment across the industry might actually present an opportunity to get in while the stock is out of favour. There is a chance the edibles market will meet expectations. In that case, we could see cannabis stocks rally in early 2020 the way they did in January of 2019.

Should you buy?

As the marijuana industry matures, Aurora Cannabis is expected to be one of the eventual winners, given its size and its leadership position. If you are a cannabis bull, you might want to start nibbling, but I would probably wait for evidence the pullback has run its course before adding the shares to your portfolio.

There are other ways to play the growth of the cannabis industry without betting on the producers.

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. Business Insider
2. Msn
3. Newscred
4. Sharewise
5. Yahoo CA

Category

1. Cannabis Stocks
2. Investing

Tags

1. Cannabis

Date
2025/08/25
Date Created
2019/09/20
Author
aswalker