At What Price Is Aurora Cannabis (TSX:ACB) Stock Worth Buying?

Description

A doomsday scenario looms for **Aurora Cannabis** (TSX:ACB)(NYSE:ACB) after the company reported disappointing fiscal fourth-quarter earnings on September 11, 2019. The negative sentiment in the cannabis sector is overwhelming, as the subsequent earnings reports by industry peers were also disappointing.

But investors' focus is more on Aurora, which is the acknowledged industry leader today. The dismal financial figures are a cause for concern moving forward. Aurora would be spending about $445 million over the next three quarters to churn the business. There's also a $200 million convertible debt due in March.

Cash negative

An analyst warned two months ago that Aurora would reach the point of "cash negative" due to the way the company was aggressively investing. With limited catalysts for near-term growth, many fear Aurora will run out of resources. The company might have to pull a rabbit out of the hat to source fresh funds.

The world's second-largest cannabis company's actual results in key numbers were all below analyst estimates. Its adjusted EBITDA loss came to $11.7 million, which is $6.1 million worse than the $5.6 million estimates. Net revenue was 8.34% off versus the $107.9 million forecasts with gross margin at 58%, not 60.7%.

At the beginning of 2019, management made a promise that the company would post a profit in the fiscal fourth quarter. Realizing their mistake, Aurora executives had to change their story. They were non-committal when they said Aurora was on track to reach the goal in the future.

Even if Aurora's executive chairman Michael Singer insists that the company will reach a form of profitability in the next fiscal year, Aurora's credibility is damaged. It's doing more damage control to repair its image.

The company cites the lack of retail locations in Canada as the reason for weak sales. It wants to see greater retail infrastructure in the near term. By saying it expects adjusted EBITDA to continue to improve in the future, Singer is setting a broader expectation for the next fiscal year.

Major downgrade

Market analysts are now changing their forecasts for Aurora. For fiscal 2020, their full-year sales forecast is down from $600 million to $485 million. But they're split on the time frame within which Aurora will break even on EBITDA. One group sees Q1 fiscal 2021, while another thinks it will happen in Q3 fiscal 2020.

Aurora's price drop is inevitable. The stock fell 8.9% to $7.75 a day after the quarterly earnings report. Before Aurora's reporting, the analysts' price for ACB was $11.96, or a potential upside of 40.54%.

At the current price of $7.26, the analysts' median price target is $11.92, or a gain of 64.18% in the next 12 months. But with Aurora's penchant for overpromising and underdelivering, these forecasts will not hold.

I agree with some observers that Aurora's free fall won't stop yet. Investors' disenchantment with the cannabis industry will push the stock lower.

Finally, Aurora's resources are nearing depletion. The company might have to beg from the capital growths to continue its aggressive growth agenda. If ACB dips to $5, I would consider purchasing around that price point for a long-term hold.

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
2025/08/23
Date Created
2019/09/23
Author
cliew