



Why Aurora Cannabis (TSX:ACB) Is My Top Pot Stock for 2020

Description

Marijuana stocks are under pressure. Over the past 12 months, the average pot ETF is down 50%. While the future remains bright, the industry's initial period of over-exuberance appears over. The sky-high valuations and expectations have cratered.

Finally, pot stocks offer opportunity for both growth and value investors. Sorting through the market's trash bin, there are some [exciting options](#).

Over the past year, **Aurora Cannabis Inc.** ([TSX:ACB](#))(NYSE:ACB) has fallen by nearly half, with the market cap down to just \$6.5 billion. That's still a heavyweight in the nascent cannabis industry, but it's a humbling drop for the once-lauded operator. While 2019 was a year filled with trouble, 2020 is a chance to put things right.

For years, the company has been positioning key infrastructure to solidify its lead in the rapidly growing pot market. By 2030, the global cannabis market is expected to exceed \$80 billion. In 2018, Aurora's revenue totalled a paltry US\$42 million. In 2019, sales ballooned to US\$190 million, but the company is only now entering its true growth stage. Next year, sales are expected to surpass US\$430 million, while 2021 sales may reach US\$800 million or more. One analyst has a US\$1.3 billion sales target!

If the pot market continues to take off, as nearly every industry insider projects, Aurora will likely lead the pack. If you want proof of how savvy this management team is, consider their former deal with **Green Organic Dutchman Holdings Ltd** (TSX:TGOD).

A rare bird

The cannabis industry has had its fair share of controversy. In many instances, management teams have been charged with enriching themselves over shareholders. Aurora, for its part, seems to be a breath of fresh air. Here's a perfect example.

In early 2018, Aurora teamed up with Green Organic to forge a partnership that would share financing, expertise, and cannabis output. Aurora took an early equity stake in Green Organic in exchange for its

expertise in scaling grow facilities, as well as a commitment to buy 20% of Green Organic's cannabis production.

The deal was perfect for Aurora. The company received a multi-million dollar stake in Green Organic at rock-bottom prices, while securing a huge amount of differentiated organic marijuana at wholesale rates.

Over the next 12 months, however, it was clear that Green Organic was behind schedule. Delaying cannabis production directly impacted Aurora's ability to source organic product. To remedy the situation, Aurora purchased Whistler Medical, the first licensed producer to obtain organic certification and sell a full suite of organic certified cannabis products.

Whistler Medical reached full production this summer. For comparison, Green Organic won't book meaningful production until next quarter. Whistler medical can now grow 5,000 kilograms per year, but eventually could hit 15,000 kilograms with expansion efforts. On September 4, Aurora officially terminated its deal with Green Organic, liquidating its equity stake.

That's a lot of information, but here's the conclusion. Aurora's management team was able to wisely pivot away from its former deal, securing production from a new source (Whistler Medical) at a cheaper price and months ahead of schedule. In addition, Aurora *still* profited from its Green Organic stake, making this a clear win-win. The Whistler Medical acquisition should be immediately accretive. Whistler has remained cash flow positive since 2015, with EBITDA margins of 30%.

Aurora's executives clearly think long term. They position the company for success years in advance. And when those long-term plans are impacted by new challenges, they're able to adapt quickly, creating win-win scenarios. As the pot industry explodes, Aurora should remain ahead of the pack.

The cannabis market is in a rut, but if sentiment reverses in 2020, expect Aurora stock to move higher.

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