



Why Aurora Cannabis (TSX:ACB) Stock Price Fell 20% in September

Description

Aurora Cannabis ([TSX:ACB](#))(NYSE:ACB) stock passed through a brutal September. It shed 20% of its value over the course of the month, and has now retreated to a 52-week low. What is behind this pullback? Let's jump in and find out.

Disappointing earnings and a profitability setback

The company released its fourth-quarter and full-year results for fiscal 2019 in early September. Aurora had previously boasted that it would be able to achieve profitability by the end of the fiscal year. This turned out to be an overreach as Aurora conceded in this earnings release that it will not be able to turn a profit until fiscal 2020.

This comes a month after another top producer, **Canopy Growth**, reported a revenue miss and pushed back its profitability guidance. Adjusted EBITDA at Aurora came in at a loss of \$11.7 million, net revenue rose to \$98.9 million, and gross margin was 58%. All fell below estimates in the quarter. Aurora blamed some of its setbacks on the slow pace of retail cannabis roll outs in Canada.

Aurora is now more likely to hit its profit goal by the second quarter of fiscal 2020.

Cash concerns

Cannabis companies are gearing up for big product launches ahead of "[Cannabis 2.0](#)", but Aurora finds itself in a sticky cash position. Aurora has been generating significant cash flow and operating investing losses over the past several quarters. In its most recent quarter, Aurora bled \$180.4 million in operating losses and investments.

Aurora's cash and securities balances sat at just over \$200 million at the end of the fourth quarter. The company raised an additional \$360 million credit facility early last month. Still, the move drew attention to a troubling issue that is putting even more pressure on Aurora to turn a profit. Canopy Growth, by contrast, boasts over \$3 billion in cash.

The company needs to solve its liquidity problem ahead of the next calendar year. It brought on strategist Nelson Peltz in order to broker partnerships, but a breakthrough has yet to be achieved. Until Aurora receives a cash injection, investors have every right to worry about its precarious liquidity position.

Short sellers on the assault

Many of the top cannabis stocks have been reeling since the [middle of spring](#), and this has naturally drawn the attention of short sellers. Analysis by S3 Partners revealed in mid-September that short sellers had raked in USD \$1.17 billion so far in the third quarter on pot positions. Short interest in the sector has increased roughly 80% in 2019.

Other sectors have stabilized on the TSX, which has moved short interest to more vulnerable spaces. Top cannabis companies have pushed back profit guidance while maintaining sky-high market valuations. It continues to be a sector ripe for short interest.

Until these fundamental issues are resolved, this will continue to be an issue for Aurora and its peers.

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