



Investors: Could Aurora Cannabis (TSX:ACB) Stock Make a Comeback?

Description

Aurora Cannabis ([TSX:ACB](#))(NYSE:ACB) had a terrible day on Monday, sliding from \$5.8 to \$5.47 — a 5.7% decline. The decline came after a mixed fourth-quarter earnings report, which saw soaring revenue but negative earnings.

Although Aurora has been making strides toward profitability recently, with shrinking losses and soaring cannabis sales, it hasn't been quite what investors were hoping for. However, with the company's financials starting to turn around, it's worth asking whether this stock could make a comeback. Unlike **Canopy Growth**, this company's losses are actually shrinking rather than growing, so it may have a chance. To understand why that's the case, we need to look at the stock's performance so far this year.

One of the worst performers this year

ACB has been one of the worst-performing TSX stocks of 2019. Starting off the year at \$7.09, it's down about 17% as of this writing. Although Aurora is down less than marijuana stocks as a whole — as measured by **Horizons Medical Marijuana Life Sciences ETF** — it's performed terribly compared to the TSX.

Such underperformance has been depressing to look at. However, it has had the effect of making Aurora shares cheaper. This stock, which was previously one of the most expensive on the TSX, now has a lower price-to-sales ratio than **Shopify**. Granted, it's still expensive, but it's cheaper than many other marijuana stocks while having the growth needed to justify a steep valuation. This may suggest that the stock could make a comeback. However, before we entertain that possibility, we need to look at the company's losses.

Losses

In its most recent quarter, Aurora posted a [loss of \\$11.7 million](#) on revenues of \$98 million. That loss is down significantly from the prior quarter, when the company lost \$36 million. It's also pretty low as a

percentage of revenue. These two factors, when combined, would tend to indicate that Aurora could be within striking distance of profitability. However, marijuana stocks' earnings tend to be influenced heavily by unpredictable financial changes like fair-value adjustments and impairment charges, so it's hard to say whether the trend seen over the last two quarters will persist.

It all comes down to one thing

Ultimately, whether Aurora stock makes a comeback will depend on what happens when it next releases earnings. Investors are going to want the revenue growth from previous quarters to continue, and for the stock to continue trimming its net and operating losses.

That may be easier said than done. As I've written in previous articles, many weed stocks have [significant amounts of goodwill on their books](#), some of which may have to be written down. When goodwill is written down, it not only reduces book value but also results in "mark-to-market" losses on the income statement. Currently, Aurora Cannabis has \$3.17 billion in goodwill on its books, which means that it could lose substantial amounts of money on impairment charges. If that comes to pass, then expect the stock to not only *not* make a comeback, but slide much further.

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