# Can Aurora Cannabis (TSX:ACB) Stock Rebound in 2020?

## Description

Similar to nearly every other weed stock, **Aurora Cannabis** (TSX:ACB)(NYSE:ACB) has plummeted this year. The company has shed nearly two-thirds of its market value and is now trading at a two-year low.



The reason for this is clear: the first full year of legal marijuana sales in Canada haven't worked out as anyone expected.

The new producers haven't displaced the illegal pot industry as much as expected; some have even lost their licenses for selling pot illegally from legal facilities, well-known founders have been ousted, provinces like Ontario have actually lost money through distribution and reported sales have come in lower than expected this year.

As one of the largest producers, Aurora has been fully exposed to this sudden shift in investor sentiment. But could the company see a turnaround next year? Here are two factors that could push the company's stock higher in 2020:

## Cannabis 2.0

At the moment, the legal marijuana sector operates as an agribusiness. Operations are focused on production capacity and the cost per gram of dry weed, similar to the way wheat or corn producers operate.

However, this lack of differentiation is expected to fade away as producers launch brands and products that consumers can easily identify and stay loyal to. The imminent launch of edibles in Canada, now known as Cannabis 2.0, gives major producers like Aurora a chance to offer a wider variety of products with better margins.

Earlier this year, the company announced it would begin producing edible products including baked goods, chocolates, mints, and infused beverages at a new Edmonton facility. Products are expected to be on the shelves by early 2020, and the added value to be reflected on the balance sheet next year.

## Low valuation

Like a tightly wound-up spring, ACB stock's valuation has been suppressed too far. The company's current market value is just 16 times cash and cash equivalents and 16% higher than book value per share.

Property, plant and equipment are worth nearly $765 million, or 15% of total assets. Meanwhile, total debt is also under 15% of equity.

That said, much of the company's book value is concentrated in intangible assets like goodwill and the business is expected to remain cash flow negative for the next few years. But if the company can raise more cash through debt or equity issuance, the stock could unlock more value next year.

In fact, similar to its rivals **Cronos Group** and **Canopy Growth**, securing a major strategic partner, could add some serious value for Aurora shareholders in the short-term.



Eventually, as the industry matures, Aurora's operations should become profitable as well. As it's already one of the largest players, a culling of the competition in the current market shake-out is to Aurora's benefit.

## Bottom line

The ongoing chaos in the marijuana sector has pummelled valuations across the board. Investors can still expect plenty of wealth destruction in this sector over the next few years.

However, major producers like Aurora Cannabis with enough resources, robust production networks and room to expand into new higher-margin categories such as edibles could emerge as winners in 2020 and beyond.

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