



Is Aurora Cannabis (TSX:ACB) Stock Too Cheap to Pass Up?

Description

The 2015 Canadian federal election sparked a massive run for cannabis stocks. Unsurprisingly, the aftermath of the 2019 election has not been as friendly to the sector. Cannabis equities, especially for the top producers, have been in a funk since the middle of spring.

Aurora Cannabis ([TSX:ACB](#))(NYSE:ACB) is the second-largest cannabis company by market cap on the TSX. Shares have dropped 44% over the past three months as of close on October 24. The stock hit a 52-week low of \$4.59 in trading this week.

Why the stock has struggled lately

Earlier this month, I'd discussed some of the reasons [Aurora stock was pummeled](#) in the month of September. A setback in its fourth-quarter and full-year results was the primary culprit. The company had predicted that it would achieve profitability by the end of the previous fiscal year, but this turned out to be an overly optimistic projection. It now expects to hit this profit goal closer to the second quarter of fiscal 2020.

Dwindling cash reserves continue to be a concern at Aurora. Aurora's cash and securities balance sat at a paltry \$200 million at the end of the previous quarter. This was before the company raised an additional \$360 million credit facility. There was hope that Aurora would be able to swing a partnership that could give it a much-needed injection of cash, as was hyped after it brought Nelson Peltz on board as a strategic advisor. Investors are still waiting for that elusive deal.

Q1 earnings coming in November

Aurora is expected to release its first-quarter fiscal 2020 results on November 11. What are we looking for in this quarter? First off, investors will want to see ramped up production in Q1. Aurora's gross margin should improve quarter over quarter with the economies of scales from its higher-volume facilities driving gross margins as well as the jump in production.

Management at Aurora has blamed some of its setbacks on the slow retail rollout in Canada. “If there were a broader retail infrastructure, and more stores available in Canada and open, that pretty likely would have made the difference toward us reaching that milestone,” said chief corporate officer Cam Battley.

We are in the “prove-it” stage for cannabis companies, and Aurora drew the ire of investors when it failed to achieve profitability in the final quarter of fiscal 2019. The top cannabis companies are set to launch a slew of products after the second round of legalization, which includes edibles and vapes. Those products will hit shelves in December.

Is Aurora stock a value play today?

Back in late August, I thought [Aurora looked tempting](#), as the cannabis sector had been throttled by volatility. But hey, as Shakespeare said, “Better three hours too soon than a minute too late”! Readers today can jump in at a much more attractive price level, though we should keep in mind that this stock still carries major risk. Shares last had an RSI of 33, which puts Aurora just outside technically oversold territory.

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