



Aurora Cannabis (TSX:ACB) Faces a Tough Hurdle on the Road to Profitability

Description

Aurora Cannabis ([TSX:ACB](#))(NYSE:ACB) stock is now down over 65% from its all-time high reached before marijuana was legalized across the nation. For value-conscious investors waiting for a decent entry point, now may be the time, as weak-handed investors continue to flee the stock over profitability concerns.

Aurora versus the black market

While Aurora does look to be on [the road to sustained profits](#), with narrowing adjusted EBITDA losses as of the latest quarter and better-than-average margins, the company may have some hurdles to cross before the company can achieve the holy grail of the cannabis scene in sustained profitability numbers.

The black market is proving to be a fierce foe of all cannabis producers, and seeing as cannabis remains nothing more than a commodity at this juncture, all producers are going to need to sacrifice margins to narrow the illegal-to-legal cannabis price spread, which has now widened drastically.

Last year, before nationwide legalization of marijuana came into effect, I'd warned investors to back away from cannabis stocks because the [black market](#) would likely cause a massive purge across all names in the space. This is indeed what happened, and right now, we're right in the middle of a vicious sell-off that could extend well into year-end.

Fortunately, since Aurora has some of the better margins in the space, it can afford to lower prices with the hopes of enticing illicit cannabis users to buy legal product. The entire industry is about to get its margins squeezed, but that doesn't mean profitability will become an unreachable goal for producers.

Weed is just another commodity

Marijuana producers are no different than the producers of any other commodity.

A producer that can produce the most product at the lowest price will be a leader in the space. And as commodity prices plunge (the price of legal weed should move closer to the price of illicit marijuana), it'll be the firms with the strongest footing and margins (like Aurora) that will survive a given downturn and come out roaring on the other side.

Suffice it to say, we're likely at the cusp of a plunge in the price of legal weed. And while that may make profitability tougher to reach for all players in the space, it will be a necessary hurdle to pass for all cannabis producers on the road to sustained profitability.

Foolish takeaway

At this juncture, investors are already pessimistic when it comes to profitability. And should Aurora follow in the footsteps of **HEXO** by creating a line of budget bud of its own to combat the black market, we could see losses accelerate over the near term and cause another wave of selling before Aurora can reach a bottom.

As such, I'd be cautious by catching the falling knife right now. Due to Aurora's margin advantage, it's one of the best-positioned firms to come out on top after a potential collapse in the price of legal weed. But for now, it'd be a good idea to wait until the remainder of the profit-focused investors are squeezed out of the stock before initiating a sizeable contrarian position.

Stay hungry. Stay Foolish.

CATEGORY

1. Cannabis Stocks
2. Investing

POST TAG

1. Cannabis
2. Editor's Choice

TICKERS GLOBAL

1. NASDAQ:ACB (Aurora Cannabis)
2. TSX:ACB (Aurora Cannabis)

PARTNER-FEEDS

1. Business Insider
2. Msn
3. Newscred
4. Sharewise
5. Yahoo CA

Category

1. Cannabis Stocks
2. Investing

Tags

1. Cannabis
2. Editor's Choice

Date

2025/08/21

Date Created

2019/10/29

Author

joefrenette

default watermark

default watermark