



## Should Beaten-Down Aurora Cannabis (TSX:ACB) Stock Be on Your 2020 Buy List?

### Description

News that **Aurora Cannabis** ([TSX:ACB](#))(NYSE:ACB) is suspending some construction projects [came as no surprise](#) when management released first-quarter 2020 earnings results on Thursday, but the stock price could still touch lower 52-week lows in the near term as the market adjusts its growth expectations for the marijuana industry.

That said, contrarian investors with a long-term holding period could have been presented with more rewarding entry points into one of the most promising marijuana players during a period that's witnessing increasingly negative investor around the once-confident cannabis sector.

Aurora's quarterly results were a mixed bag. Cannabis net revenue declined sequentially by 24% to \$70.8 million, led by lower consumer pot orders from the provinces and a significantly weaker wholesale market.

As I had feared on Wednesday, the wholesale market underperformed as sales declined by nearly 49% sequentially to just \$10.3 million, and recreational orders declined 33% sequentially. However, there was an encouraging 3% growth in Canadian medical sales as registered patients increased by 8% and exports jumped 11% over the recent past quarter.

Most of the company's other performance indicators showed desirable improvements on a sequential quarterly basis.

Chief among the notable improvements was the company's cash cost to produce marijuana improved by 25% to \$0.85 per gram. The company reported a surprise 7% jump in realized average selling prices for its product as the low-priced wholesale component declined as a proportion of total sales.

This allowed the company to maintain its envious gross margin of 58% when everyone else who has reported saw margins painfully contract during the same period.

While investors will appreciate the company's efforts to reduce quarterly operating expenses and the 43% increase in productivity, I'm still very concerned about the rate at which the Canadian recreational

marijuana market will grow from here.

The underground pot market continues to thrive, which is probably due to the slow regulated retail store roll outs across the country. Additionally, the market could be eager to see what strategy the company has for a U.S. market entry that promises to improve cash flow generation.

Cash flow has been a challenge for the company and its investments portfolio has also shrunk, so management needed to take proactive action in the face of weaker-than-anticipated consumer demand growth.

## Cash preservation tactics

Aurora has negotiated a lower conversion price for \$155 million of convertible debentures set to mature in March next year down from \$13.05 to a five-day volume weighted average price in an early conversion deal, and a 6% discount is offered on top.

This is a great deal that could allow the company to preserve cash flow by avoiding a full redemption of the debentures, resulting in a significant cash out flow.

Further, the company is suspending some of its expansion projects. Its largest planned facility's construction and commissioning activities will be deferred, and the company is immediately ceasing construction activities at its Nordic 2 in Denmark.

These moves will preserve about \$190 million in cash. I had [anticipated this possibility on Wednesday](#), so it wasn't a surprising development.

## Time to buy?

The sky is falling on pot stocks — or so the current market sentiment seems to say, but the marijuana industry is still in its infancy and there's still a learning curve to be endured. Export market growth is necessary to diversify revenues and forays into the U.S. CBD market could lift some investor spirits.

If one is bullish about the future of Canadian marijuana over the next five or more years, then these are the times to closely watch for signs of bottoming out share prices and get ready to pounce. That said, there's still significant short-term speculative risks here. Given that nobody can tell where the bottom is, it could still be far, far below.

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