Aurora Cannabis (TSX:ACB) Ends Volatile Week in Green

Description

Shares of Canada's cannabis giant **Aurora Cannabis** (TSX:ACB)(NYSE:ACB) have made a strong comeback in the week ended on November 22, 2019.

Aurora Cannabis lost over 40% between November 8 and November 18 announcing less than impressive September quarter results. The tepid quarterly results of peer companies such as **Canopy Growth** and **Cronos Group** led to massive erosion of shareholder wealth in the first half of this month.

ACB stock fell 16% last Monday extending losses to six trading sessions. It then recovered and gained 40% in the next three days before falling about 8% on Friday.

Shares of Cronos, Canopy, and **Hexo** fell 27%, 34%, and 32%, respectively, between November 8 and 18. While Cronos stock has gained 14%, Canopy and Hexo are up 31% and 45%, respectively, since then.

So, does this recovery indicate that the cannabis companies have bottomed out? If not, then what is driving shares higher?

Cantor upgrades Aurora Cannabis, MKM still cautious

According to multiple reports from *The Fly,* analysts are still split on the outlook for Aurora Cannabis. Shortly after ACB's earnings results, Cantor Fitzgerald analyst Pablo Zuanic upgraded Aurora Cannabis stock to "Overweight" from "Neutral" and increased its price target from $5.1 to $5.85.

Zuani states that the worst is over for Aurora Cannabis, and though there might be some concerns in the December quarter, he is bullish on the company's performance in CY 2020.

However, analyst Bill Kirk from MKM Partners is cautious about the cannabis heavyweight. According to Kirk, the cannabis industry is still grappling from higher illegal sales and lower margins. The analyst expects cannabis companies will find it challenging to achieve profitability in the near term.

Aurora Cannabis stock still trading 70% below record highs

Aurora stock is currently trading at $4.14 at writing, which is still 70% below its record high of $14. This gives us an idea of the sell-off and mayhem witnessed in the cannabis sector in the last year.

The fundamental issues will continue to impact Aurora and peers at least in the short term. As cannabis is a highly regularized industry, the rollout of retail stores has been slow. Coupled with the cannibalization from the illegal market, this has resulted in massive inventory pile-ups for companies.

In the September quarter, Aurora's Canadian consumer cannabis fell 33% year over year, which was offset by growth in its domestic medical sales and international revenue.

Despite the concerns over rising inventory, Aurora increased cannabis production by 43% in the fiscal first quarter of 2020 (year ending in June).

During the earnings call, company CEO Cam Battley stated, "We expected to see growth plateau in the market in Q1 2020, and in fact, as we reported today, our consumer market revenues declined as a result of changes in customer preferences and particularly challenges in retail and provincial distributors."

He added, "I want to emphasize that we view these as short-term headwinds, and despite them, Aurora has continued to maintain our position as the leading producer and supplier of high-quality medical and consumer cannabis products."

What's next for Aurora and investors?

The huge capital expenditure investment over the last year has resulted in a lower cost of sales. Aurora Cannabis managed to cut the production cost of cannabis by 25% to $0.85, resulting in gross margins of 58%.

The addressable market for cannabis players is huge and companies continue to invest heavily to increase production capacities.

The industry is still at a nascent stage of growth and will consolidate as the market expands and larger players come in. Aurora Cannabis stock has gained momentum in the last week and might move higher as investor optimism rises with the launch of Cannabis 2.0 by the end of CY 2019.

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Date
2025/08/25
Date Created
2019/11/24
Author
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