



Why Is Aurora Cannabis (TSX:ACB) Stock Falling This Week?

Description

Shares of Canada's marijuana giant **Aurora Cannabis** ([TSX:ACB](#))(NYSE:ACB) are trading at \$3.24. The stock lost 7% in market value on Monday and declined over 4% yesterday.

On Monday, Aurora Cannabis announced that it has received a notice from holders of its unsecured convertible debentures to convert debt into equity.

ACB stated that the 5% unsecured debentures amounting to \$227 million will be converted into common equity at a price of \$3.2837 per share.

The debt is due on March 9, 2020. Aurora will have to issue 69.13 million shares to convert the debt into equity. As shareholder wealth has been diluted, shares of ACB plunged on November 25, 2019.

However, the more disconcerting news was from the U.S. Food and Drug Administration (FDA). The FDA released a detailed report outlining safety concerns about CBD (cannabidiol) products.

The governing body claims that there is a lack of evidence supporting the safety of CBD in food and that those food products with CBD can't be categorized as safe.

The FDA has been looking at ways to regularize the use of CBD products for a while. The body's Principal Deputy Commissioner Amy Abernethy stated, "As we work quickly to further clarify our regulatory approach for products containing cannabis and cannabis-derived compounds like CBD, we'll continue to monitor the marketplace and take action as needed against companies that violate the law in ways that raise a variety of public health concerns."

Shares of most cannabis companies such as **The Green Organic Dutchman**, **Hexo**, **Charlotte's Web Holdings**, and **CannTrust** declined by 16.9%, 8.9%, 2.1%, and 6.7% respectively on November 26, 2019.

Aurora Cannabis stock is trading 75% below record high

The pullback this week has meant that ACB stock is currently trading 75% below its record high at writing. Aurora Cannabis and peers have lost significant market value over the last 12-months.

There were concerns over the high valuation of marijuana companies after recreational cannabis was legalized in Canada last October.

The sell-off [has extended to 2019](#) as well, as investors were worried about regulatory issues. The slow rollout of retail stores and competition from the illegal market has resulted in lower than expected revenue for most companies. The vaping scandal that erupted in the U.S. sent stocks lower since September this year.

Stocks of top cannabis companies such as Hexo, **Cronos** and **Canopy Growth** are trading 74%, 73%, and 68%, respectively, below their record highs.

Is Aurora Cannabis stock attractive at the current valuation?

Aurora Cannabis is valued at \$3.36 billion in terms of market cap, or 8.3 times forward sales. It has an enterprise value of \$4.1 billion and a debt balance of \$796 million. Aurora has a cash balance of \$192 million.

The company is still reporting negative operating cash flow. It ended the September quarter with an operating cash flow of -\$218 million and levered free cash flow of -\$593.4 million.

This means that Aurora Cannabis might convert upcoming convertible debentures that are due in the near future to common equity, further diluting shareholder value.

The weakness in the cannabis space is expected to continue in the short term, as it is a highly regularized industry. The upcoming legalization of cannabis-infused edibles might be a driver of Aurora's stock price.

In case the demand for Cannabis 2.0 products is strong, it will open up another revenue stream for most players and the stock can recover from multi-year lows.

However, if the demand turns out to be tepid, investors can expect the market mayhem to reach new heights.

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