



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

Description

The meltdown in the shares prices of Canadian [marijuana stocks](#) is attracting contrarian investors searching for potential big winners in 2020.

Pot stocks are now trading near their 12-month lows, after a rough earnings season that saw many of the companies scale back revenue projections amid ongoing challenges in the recreational market.

The rollout of legal recreational pot in Canada has mostly been a disappointment for investors, consumers, and cannabis executives. The early woes came amid a shortage of supply and distribution challenges. As 2019 progressed, however, other issues emerged.

The lack of physical retail locations in Ontario and Quebec is part of the problem. At the same time, non-compliance on the part of some marijuana companies and their leaders has made life more difficult for most players in the industry.

Pot grown in unlicensed facilities has forced tighter controls by authorities, and accusations of self-dealing hasn't helped the sector's reputation with potential investors or lenders.

Stagnant or falling revenue combined with widening losses is also keeping lenders on the sidelines. This could put some companies in difficult financial situations in the near term, as the industry needs capital to expand facilities and finance research and development for new products.

As a result, marijuana stocks have been on a seven-month slide and investors are wondering if the pullback has room to run, or has now gone too far.

Let's take a look at **Aurora Cannabis** ([TSX:ACB](#))(NYSE:ACB) to see if it deserves to be on your [buy list](#) right now.

Aurora Cannabis just opened the largest cannabis store in the country. The 11,000 square foot retail space is located in the West Edmonton Mall, in the city is where Aurora Cannabis got its start.

The company is hoping the site will help improve results after a rough report on the fiscal 2020 Q1

results.

In an effort to preserve cash flow and adjust to slower global demand growth Aurora Cannabis is halting construction on major production facilities, including Nordic 2 in Denmark and Aurora Sun in Canada.

Aurora Cannabis is one of Canada's largest pot companies supplying medical marijuana and recreational cannabis products to patients and consumers. It has also invested heavily to set up operations in Europe and other international markets where governments are modifying their marijuana regulations.

The company jumped into the big leagues through a series of aggressive acquisitions in the past couple of years, including the takeovers of CanniMed and MedReleaf. The deals gave Aurora the scale and reach to compete nationally in the Canadian recreational market and that advantage should still hold value once the industry gets through the current rough period.

Should you buy?

Ontario says it plans to open more cannabis stores next year, which should help the sector. In addition, the launch of the edibles market could boost the sale of cannabis-based products.

Aurora Cannabis now trades at \$3.50 per share, compared to \$13 in March. The market capitalization is down to \$3.7 billion, which still appears expensive for a business with quarterly net cannabis revenue of \$70 million and no net profits.

In the event Ontario and Quebec can deliver on substantial new retail store openings next year, Aurora Cannabis could see revenue improve, which would bring interest back to the stock.

Contrarian investors who have a bullish view on the sector might want to start nibbling, but I would keep any new investment small. There is a risk of more downside before we see the bottom, especially if the broader equity market goes through a correction in the next few months.

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