A Bloodbath at Aurora Cannabis (TSX:ACB): Should You Buy the Dip?

Description

It was not in the spirit of 4/20, but in the middle of April, I'd warned investors that the cannabis market looked like it had plateaued for the year. I'd expected a retreat for the cannabis sector, but the ravaging of cannabis stocks has surpassed my own worst-case scenarios. Not only have the top producers fallen short of expectations, but the domestic sector is facing existential challenges.

Aurora Cannabis (TSX:ACB)(NYSE:ACB) is the second-largest cannabis stock on the TSX by market capitalization. There was considerable anticipation ahead of its first-quarter fiscal 2020 earnings release this month. I was bullish on the stock ahead of its earnings release. We just passed through American Thanksgiving, so in the spirit of those festivities I may as well sit down and eat my share of crow.

The company released its Q1 FY 2020 results on November 14. Gross profit jumped 58% year over year to $53.7 million. This led the industry, but it was one of the only bright spots in what was a disappointing report overall. Net income came in at $10.4 million compared to $104.2 million in Q1 FY 2019. Revenues fell to $75.3 million, down from $94.6 million in the prior quarter.

Perhaps the most alarming bit of news was Aurora's announcement that it would halt construction of its Aurora Nordic 2 facility in Denmark to save roughly $80 million over the next year. Aurora has battled with cash issues over this year, and this move illustrates that the company is feeling the squeeze.

In the past, CEO Terry Booth has been critical of Canada's handling of cannabis legalization. When we look at the state of the broader industry, this critique is not without merit. The province of Ontario has been plagued by a lack of retail availability due to the constrictive policy surrounding licences. The Conservative government has said that it may revisit this policy, but the black market has already stormed back to fill the demand.

Do not get too down on cannabis

The first year of legalization has been a disappointing one, but investors should not throw in the towel on this sector. On the contrary, now is a great time to add top pot stocks at a discount. Aurora is no different. The company still generated industry-leading gross margins in the quarter while improving its cost per gram. Its product is getting positive reviews among cannabis consumers.

There are positive signs on the cannabis front in the United States as well. This past week, a U.S. congressional committee passed legislation to decriminalize cannabis. It is now a step closer to being approved by the Democratic-controlled House of Representatives.

Shares of Aurora have plunged 27% over the past month as of close on November 28. The stock dipped into technically oversold territory after its earnings release and still possesses an RSI of 38 at the time of this writing. It remains just outside oversold levels.

This industry is still going through major growing pains, so investors will have to stomach back and forth from the big producers. However, long term, I still like Aurora as an addition at its current price levels.

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