Will Slowing Revenue Spell Doom for Aurora Cannabis (TSX:ACB) Stock?

Description

Aurora Cannabis (TSX:ACB)(NYSE:ACB) has been one of the worst-performing marijuana stocks of 2019.

Down 54% year to date, its slide has been much more pronounced than that of the **Horizons Medical Marijuana ETF**, which tracks the entire cannabis industry.

Aurora's slide has been driven mainly by large losses. The company has so far avoided the regulatory drama that sent **CannTrust** tumbling this year, but with losses mounting, its stock has suffered a similar fate.

Now, Aurora has another problem to contend with: slowing revenue growth.

In its most recent quarter, Aurora saw its consumer use revenue slide 33% sequentially while other categories (like Canadian medical and international medical) barely grew. Year over year, revenue grew at 150%, which is good but not up to par with past quarters. Stalling revenue growth is a major problem for a company that's still running huge losses and could send the stock even lower in 2020.

Why slowing revenue is alarming

Slowing revenue growth is a big problem for any cannabis stocks, because all of these stocks are extremely expensive and depend on growth to justify their asking prices.

Even after all the losses it sustained this year, Aurora still trades at 11 times sales. That's a lower price-to-sales ratio than in the past, but still way higher than most stocks.

In the past, Aurora was routinely growing revenue by as much as 300% year over year. That could justify the kind of steep valuation it had. Now, however, revenue growth is starting to slow down — even decline sequentially in some categories — and it's not obvious where future gains will come from.

With the legalization catalyst falling further and further into the rear-view mirror, Aurora will need something else to power its growth. There is one thing that some say has the potential to do so, but I'm not exactly confident that it will.

Will Cannabis 2.0 turn things around?

Cannabis 2.0 is the major catalyst that some are claiming will turn the 2019 cannabis slump into a 2020 bull market.

The term refers to the legalization of previously illegal product categories, like edibles and beverages.

Some of these products could have higher profit margins than cannabis itself, so they could not only drive new revenue for cannabis companies but also make progress toward profitability.

However, there are reasons to remain skeptical. For one thing, sales of cannabis beverages are tiny in jurisdictions where they're already legal, making up just 1% of total cannabis sales. For another, edibles can be made easily at home, providing an incentive against paying a premium for store-bought edibles. Finally, the vast majority of marijuana users actually enjoy smoking and/or vaporizing cannabis, and may not switch to edibles and beverages, which provide a completely different experience.

So, while Cannabis 2.0 products may enjoy higher margins than cannabis itself, it's not clear that they'll sell in large numbers. This is a big problem for companies like Aurora that urgently need a catalyst to move things forward.

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