Is Aurora Cannabis (TSX:ACB) Stock a 2020 Buy?

Description

Marijuana stocks endured some turbulent times over the past year, and investors who have stayed on the sidelines are wondering if the pullback in recent months might be a signal to add pot stocks to their portfolios heading into 2020.

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.

Volatile stock price

Aurora Cannabis traded for more than $13 in March. At the time of writing, the stock price is $3.05 per share. The downward trend has been steady for the past nine months and shows no sign of bottoming.

What’s going on?

Aurora Cannabis soared into the limelight in the marijuana sector in 2018, making a series of aggressive acquisitions that included the $1.1 billion purchase of CanniMed and then the $2.5 billion takeover of MedReleaf. Each transaction, at the time, was the largest takeover in the emerging cannabis sector.

The deals took Aurora Cannabis from being a middle-of-the-pack player in the Canadian medical marijuana space to being a challenger for the lead with **Canopy Growth**. Pundits bet the company would have the scale to also emerge as a dominant global player.

The share price has been volatile over the past two years, rocketing from $3 in late 2017 to $13 in January 2018. It then fell back to $6 in August of last year before surging above $13, once again, in the run up to the launch of the recreational marijuana market in Canada.

The entire sector took a hit after the recreational rollout didn’t go well and Aurora Cannabis fell back to less than $7 in late December. The broad-based rally in cannabis stocks that accompanied a rebound in the overall equity markets in January sent the stock on its way to topping $13 for the third time this past March.

Will it hit $13 again?

The fiscal Q1 2020 earnings report that came out in November suggested the company is anticipating some tough times. Citing weak demand, Aurora Cannabis has ceased construction on its Nordic 2 facility in Denmark. That decision should save the company $80 million in the next year.

Aurora Cannabis also decided to defer the final construction stages of its Aurora Sun facility in Canada. This is expected to conserve roughly $110 million in cash.

Cash flow is a concern. Net revenue in the quarter ended September 30 was $70.8 million. This was down from $94.6 million in the previous quarter. Selling, general, and administration expenses, however, jumped from $73 million to $81 million.

The challenge for the company is that it will have a hard time finding the funds it needs to continue scaling up to ensure it locks in a leading spot in all the emerging medical marijuana markets, including Europe and potentially the United States.

The opening of the edibles market in Canada could provide a revenue lift in 2020, as long as consumers actually buy product. There is a risk that the marijuana craze is already old news, and that wouldn’t be good for Aurora Cannabis and its peers.

Another rally in the market could lift the stock higher, but I wouldn’t bet on a new run to $13 in the next couple of months.

Contrarian investors might want to start nibbling on any further weakness, and hope for a quick pop on good edibles news or a potential takeover bid. That said, I would keep any exposure limited at this point.

There is also a risk that some of the key pot players will disappear in the coming year.

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