Aurora Cannabis (TSX:ACB) Stock Tanked in 2019: Could 2020 Be Better?

Description

Aurora Cannabis (TSX:ACB)(NYSE:ACB) was one of the worst-performing cannabis stocks of 2019. Down 58% for the year, it has fallen far more than **Horizons Medical Marijuana Life Science ETF**, which tracks the entire industry. Although all major marijuana stocks took a beating this year, Aurora truly fell off a cliff.

The question is, *why?*

With strong growth metrics and significant market share, Aurora appears to be one of the best-positioned marijuana producers. But dig deeper, and we see that the stock faces some serious headwinds. In this article, I'll explore the reasons why ACB stock tanked in 2019 and whether it could stage a comeback in 2020.

Why it tanked in 2019

There are two main reasons why Aurora stock tanked in 2019: a steep valuation and persistent losses.

In terms of valuation, ACB currently trades at 10 times sales, and that price was a lot steeper when those shares cost $7. In this respect, Aurora is similar to other cannabis stocks, virtually all of which had reached extremely high prices in the lead up to legalization.

However, Aurora faced another problem that not all cannabis companies faced: *persistent losses*. In the past four quarters, Aurora was profitable in only one, and the losses in the three losing quarters were much greater than the profit in that one quarter, resulting in a trailing 12-month loss of about $380 million. In contrast, **Aphria** managed to pull off two profitable quarters in the trailing 12-month period. While most cannabis companies aren't profitable, Aurora is losing more than most, and it's showing in the stock price.

Why 2020 could be better

There are a few reasons to think that 2020 could be better than 2019 for Aurora Cannabis.

For one thing, the company could benefit from “Cannabis 2.0,” the legalization of cannabis product categories that had previously been illegal even after 2017’s initial legalization. Many of these products, like beverages and edibles, could potentially have higher profit margins than cannabis itself, and that could be a boon to Aurora and other cannabis companies.

Another thing that could turn things around is Aurora’s expanding retail presence. Aurora recently opened an 11,000-square-foot store in the West Edmonton Mall — a venture that, if successful, could help boost the company’s adult-use sales and lead to more locations, similar to **Canopy Growth’s** efforts with Tweed stores.

Why it might be worse

Despite a few glimmers of hope, there are just as many reasons to think that 2020 will be as bad for Aurora as 2019 was.

To start, the company recently had its medical sales suspended in Germany, a major hit to the international operations it’s been sinking so much money into.

Further, the company’s growth is likely to slow down, as legalization fades into the rearview mirror, and the company starts having to beat prior-year quarters that already had recreational sales.

Finally, Aurora’s CEO Terry Booth spoke of looming “price wars” in the Canadian cannabis industry — a development which the company says it is well positioned for but would be bad for marijuana stocks in general. Although Aurora is a low-cost marijuana producer, the general trend of increased price competition is a bad one for any industry. For this and other reasons outlined in this article, I’ll be avoiding ACB in 2020.

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