



Why Aurora Cannabis's (ACB) Stock Price Fell 16% in December

Description

Cannabis stocks like **Aurora Cannabis** ([TSX:ACB](#))(NYSE:ACB) had their heads handed to them in December once again, as the downward spiral continues. When a bubble bursts, it falls hard, and Aurora Cannabis's stock price is a prime example of this. Down 16% in December, 65% in the last year, and 81% from its highs, Aurora Cannabis stock [still carries too much risk and uncertainty for investors](#).

So, why did Aurora Cannabis's stock price fall again in December, and what, if anything, should investors do at this point?

Aurora Cannabis still reeling from disappointing results

The first quarter of fiscal 2020 turned out to be another disappointing quarter, as revenue growth continued to slow and as losses continued to mount. Revenue declined 24% sequentially in the quarter, as medical cannabis revenue increased a mere 3%, and Canadian consumer cannabis revenue declined 33%, as distribution and regulatory headwinds played havoc on the cannabis industry.

As per the company's release, "provincial ordering slowed considerably during the summer as distributors worked through inventories and as the industry was impacted by the slow pace of retail store licensing."

Executive shakeup amid high inventory levels

As the company moves forward, it has been making changes at the top. Chief Corporate Officer Cam Battley was asked to step down from his role at the company, as Aurora Cannabis and the industry in general tries to recover and move forward from the carnage brought about by excessive inventory levels and "weaker-than-expected" market growth.

The focus now will be on strengthening the balance sheet and cutting capital expenditures to a more

sustainable level that takes into consideration the financial health (or lack thereof) of the business.

The bursting of a bubble

I have repeatedly warned fellow Fool investors that investing in the cannabis sector when many of the cannabis stocks were trading at multiples of north of 100 times sales was [more of a gamble than an investment](#), that the stocks had reached bubble territory, and that it was only a matter of time before the bubble burst.

In December, Aurora Cannabis's stock price continued to plummet, as the bursting of the bubble continued. There will be a time when these cannabis stocks represent value — an attractive risk/reward tradeoff — but the time is not now, as there remains much uncertainty and big downside in these growth stocks.

Earnings estimates for Aurora Cannabis stock have been slashed quite dramatically over the last year. The 2022 estimate was cut from \$0.34 earlier this year to the current consensus estimate calling for a net loss of \$0.01 per share.

Foolish final thoughts

The one silver lining here is that Aurora Cannabis stock price is now trading at a price-to-sales multiple of eight times. It is pretty much out of crazy bubble territory. It will take time for the stock to recover, and it is still a very risky investment, but at least Aurora Cannabis has more than \$2 billion in cash to take it through the upcoming tumultuous months.

Finally, I would like to remind Foolish investors of our belief in holding great businesses for the long term. While this belief remains intact, we are also aware that, sometimes, short-term stock price movements create opportunities to create wealth. By blending this long-term focus with a keen eye for short-term stock mispricings, we can use both strategies in harmony, and our quest for financial freedom can be fulfilled.

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