



Can Aurora Cannabis Stock (TSX:ACB) Make a Comeback in 2020?

Description

The last year saw cannabis stocks getting completely decimated. The sell-off meant that billions of dollars were wiped out in market caps. Shares of Canada's cannabis giant **Aurora Cannabis** ([TSX:ACB](#))(NYSE:ACB) have declined over 80% since March 2019.

The Canadian cannabis companies have been struggling with the slow rollout of retail stores in major provinces as well as competition from the illegal market that continue to account for a significant portion of marijuana sales. This has resulted in lower-than-expected sales and rising inventory levels, which have driven profit margins lower. The vaping scandal and regulatory issues with CannTrust have also not helped investors.

As cannabis continues to be a highly regulated industry, investors can expect oversupply issues to impact stocks in 2020 as well. However, stocks can quickly turnaround in case demand for Cannabis 2.0 products is higher than anticipated.

Aurora Cannabis will be under the scanner

Aurora has led the decline among large pot stocks last year. The stock has continued to fall in 2020 as well and has already lost 8% year to date. The expanding losses in the cannabis space have been a major contributing factor, as stated above.

In 2019, Aurora reported a net loss of \$297 million. Another major setback last year was the [suspension of its product sales](#) in Germany last year. Aurora was accused of using radiation facilities without the required permits, which led to the suspension. Germany is the largest medical marijuana market in Europe, and the suspension will severely impact Aurora sales this year.

Despite these challenges, Aurora Cannabis is expected to increase sales by 53.5% to \$380.5 million in 2020 (year ending in June) and by 76.2% to \$670.27 million in 2021. Investors will be closely watching Aurora's performance in the December quarter. Aurora will announce its quarterly results next month, and analysts expect sales to touch \$80.5 million.

A significant deviation from these numbers will drag the stock lower. Aurora stock is currently trading at US\$1.86 on the New York Stock Exchange and can get delisted from the exchange in case it trades below \$1 for one month.

Will management change help Aurora Cannabis?

Aurora Cannabis's CCO Cam Battley has stepped down. Will the change in leadership benefit the company? Several other pot companies have [undergone leadership changes](#) in recent times.

However, while Aurora Cannabis will look to get an experienced stalwart at the helm, it will need to focus on reducing losses as well as capital expenditures in the next few quarters. Analysts expect Aurora's capital expenditures to reduce from \$414 million in 2019 to \$282 million in 2020 and \$104 million in 2022 giving the bottom line a much-required boost.

Analysts expect its EBITDA to improve from -\$156 million in 2019 to -\$112 million in 2020, \$74.6 million in 2021, and \$240 million in 2022. Aurora's EBITDA margin is expected to reach a healthy 21.9% by the end of 2021. Driven by the massive erosion in market cap, the company is trading at a market cap to revenue ratio of 6.6, which is reasonable considering its expected growth.

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