



Analysts Give Aurora Cannabis (TSX:ACB) Stock a \$1 Target: Time to Sell?

Description

Early in 2020, **Aurora Cannabis** ([TSX:ACB](#))(NYSE:ACB) has done surprisingly well, rising 5.3% from its closing price at the start of the year. Many analysts, however, expect the stock to resume the [downward slide it started last year](#). Faced with losses, possible goodwill impairment, and hiccups in its European operations, it's getting downgraded left and right.

The latest news is that two analysts at major institutions have given the stock target prices below \$2. Michael Lavery of Piper Sandler downgraded ACB to \$1 from a previous \$3 target, while a **Bank of America Merrill Lynch** analyst downgraded the stock to underperform.

Reasons cited for the downgrades included weak European sales and balance sheet issues. These downgrades come after Aurora temporarily lost its licence to sell cannabis in Germany — a major setback for a company that's investing heavily in international growth. However, that may not be the biggest problem the company is facing.

A mountain of goodwill

One major problem for Aurora Cannabis is that it's got a mountain of goodwill on its balance sheet that is very likely to be impaired.

As of its most recent quarterly report, the company had [\\$3.1 billion in goodwill](#). A sizable portion of that came from the acquisition of MedReleaf, a company that is reportedly not meeting the production goals Aurora had in mind. This is corroborated by the fact that Aurora recently sold one of MedReleaf's facilities — which had been acquired for more than \$20 million — for just \$17 million.

If Aurora takes an impairment charge on MedReleaf-related goodwill, then the company will see its assets shrink and take a huge hit on its income statement. Other cannabis companies have already taken massive impairment charges from questionable acquisitions, so this is hardly out of the question.

A possible recreational sales slowdown

Another problem facing Aurora is a potential slowdown in its recreational sales. When Aurora released earnings in November, it reported a 33% decline in Canadian recreational sales. That's an alarming sign, because recreational sales growth had been the anticipated catalyst that gave marijuana stocks like Aurora their inflated valuations in the first place. If Aurora's recreational sales continue to slide, expect its stock to follow suit.

Foolish takeaway

In 2019, ACB was one of the worst-performing cannabis stocks.

In 2020, that trend might just continue. With the company battling huge losses, questionable goodwill, European headwinds, and a recreational sales slowdown, it seems unlikely that things will turn around in a big way.

Will ACB shares fall to \$1?

That's impossible to say with certainty.

However, the number of analysts setting target prices lower than \$2 is growing, and the company's results aren't getting any better. There's no way to say exactly how low the stock will go. However, it can be said with reasonable confidence that unless there's a major surprise in its next quarterly report, ACB probably isn't a buy right now.

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