



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

Description

The share price of **Aurora Cannabis** ([TSX:ACB](#))(NYSE:ACB) is up nearly 30% in the past two weeks and that has [contrarian](#) investors wondering if the stock has finally bottomed.

Let's take a look at the current situation in the marijuana sector to see if this is a good time add Aurora Cannabis and its peers to your portfolio.

Cannabis roller coaster

The recent launch of the cannabis edibles segment came with much less excitement than the late 2018 opening of the recreational marijuana market in Canada.

Investors have good reason for being cautious after the disappointing results the market delivered in 2019. Marijuana stocks had rallied significantly ahead of the initial new regulations that allowed the sale of cannabis products other than for medical users.

Unfortunately, the sector flopped shortly after the opening, with product shortages and widespread distribution issues dampening investor and consumer enthusiasm.

Aurora Cannabis traded for more than \$13 per share in October 2018, right before the legalization occurred. By the end of the third week in December it was back below \$7.

A new rally in early 2019 took the stock above \$12 in the middle of March. That proved to be another fake and investors who chased that surge haven't fared well.

Aurora Cannabis went on an extended decline through the rest of 2019 and into the first part of this year, hitting a closing low of \$2.15 per share on January 10.

Bargain hunters have since moved into the sector, but the current price of \$2.75 is little comfort to those who stepped in above \$10 during the euphoria over the past couple of years.

Statistics Canada says the black market continues to be a competitive force with lower prices than those being offered by legal suppliers. Pot producers blame the lack of physical store locations as part of the reason for the ongoing success of the illegal trade.

Ontario has changed its rules to allow the opening of more retail locations, and that should help [cannabis producers](#) reach more customers.

Cannabis 2.0, as the second wave of legalization is known, holds significant potential for edibles and drinks. Early indications suggest demand for edibles has been robust.

Cannabis-infused drinks are expected to challenge the beer and wine market for consumer dollars, but it will be interesting to see how much of an impact the new beverage offerings will have on the existing drinks market.

Is Aurora Cannabis a buy?

Aurora Cannabis hasn't partnered up with a major beverage company, which is viewed as a potential negative for the stock.

Canopy Growth is 38% owned by **Constellation Brands** and **HEXO** has a partnership with **Molson-Coors Canada**. These two companies are expected to capture an early lead in the cannabis drinks segment.

Aurora Cannabis recently put a 22-acre greenhouse with 15,000 square feet of production capacity up for sale for \$17 million. The site was part of the \$3.2 billion purchase of MedReleaf in 2018.

One analyst report indicated that the site represented 75% of MedReleaf's previous production capacity, suggesting huge write-downs could be on the way.

Aurora Cannabis also recently announced the departure of its chief corporate officer. This, along with reports that a director has unloaded more than half of his shares and a dilutive financing move using convertible bonds has investors and potential lenders giving the company a wide berth.

Aurora Cannabis isn't profitable and the company missed Q4 revenue guidance, indicating the path to profitability might be longer than expected.

While contrarian investors might be able to pick up a quick gain on further upside in the recent rally across the sector, I would probably look for other opportunities.

Any additional bad news from the company could quickly bring the stock back to the recent lows.

CATEGORY

1. Cannabis Stocks
2. Investing

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