



## Aurora Cannabis (TSX:ACB) Stock Could Triple in an Upside Correction

### Description

Many investors see **Aurora Cannabis** ([TSX:ACB](#))(NYSE:ACB) stock as [dead money](#). The name has been in free fall mode for nearly a year, the ominous triple-bottom pattern came to fruition (and could imply further downside), the sell-the-news, post-legalization scenario panned out as I predicted, and substantial ground has been lost to Aurora's top competitor in **Canopy Growth**.

With shares down over 85% from all-time highs hit back in late 2018, it seems like putting money in Aurora stock is akin to throwing your hard-earned fortune into some sort of black hole. The Edmonton-based licensed cannabis producer has also faced an onslaught of analyst downgrades, serving to exacerbate the negative momentum of late further.

Indeed, margins are due for a squeeze as the licensed producers (LPs) go to war against the black market, with competitively priced products that may make sustained profitability seem like even more of a pipe dream for all the Canadian cannabis kingpins, no matter how well run or well capitalized.

Analysts at Piper Sandler and Merrill Lynch recently slashed their price target on Aurora stock to just a buck (US\$1), two of the lowest Aurora price targets on Bay or Wall Street, amid the analyst rush of downgrades. Even after the nasty decline, their sell recommendations imply a further downside of around 35% from current levels. Many bears also see Aurora offloading a substantial number of assets to improve the state of the balance sheet.

Back in January 2018, I'd slammed Aurora's management team for overpaying for insanely expensive acquisitions while "diluting shareholders to death" in the process. As I predicted, such leveraged moves amplified the negative move, as cannabis stocks fell off a cliff. And to this day, the company is still seeking to pay the price of a costly mistake that I recognized immediately following Aurora's valuation-neglecting acquisition spree a few years ago.

“Simply put, the \$1.1 billion CanniMed acquisition doesn’t at all consider value, and I believe Aurora is positioning itself to take a major hit on the chin once the next cannabis pullback shows its ugly head.” I said in a [prior piece](#). “After the CanniMed deal, Aurora drops from my top-ranked Canadian marijuana stock to the worst on my list.”

With such a move that I viewed as value-destroying, the stock went from top to bottom in my books. And indeed, this is what has panned out over the last year, as the stock has taken on far more damage than its bigger brother Canopy.

While the slew of analyst downgrades is a concern, I think they mean far less given many of the downgrades happened *after* the fact. A stock loses 85% of its value, and you’ll be forced to downgrade your target a few times if you missed the sheer magnitude of value destruction that I thought was painted on the wall.

Everybody is bearish on Aurora right now, but that’s precisely why I think you should be bullish. The company has made mistakes, but it’s paid the price, and then some. What many analysts neglect is Aurora’s margin advantage over many of its peers in the space. It’s this advantage that will allow the company to thrive when the tides have the opportunity to turn again.

In the meantime, it’s going to be a race to the bottom, as LPs look to combat the black market. There will be blood on the Streets, but I think Aurora will survive, and those with the patience to hold through the next five years, I believe, could see significant rewards now that the stock has overswung to the downside.

## Foolish takeaway

Aurora trades at 7.8 times sales and 0.64 times book, which is dirt cheap for a company that has a shot to be an industry leader one day. There is baggage with the name, though. It’s tougher to find funding, and the company is going to need to divest assets, as revenues look to drop amid a drastic industry slowdown. As the company improves its financial footing through asset sales, I wouldn’t be surprised to see the stock triple to \$6 within the next three years, as investors begin to realize how overblown the recent selloff was.

If only Aurora didn’t make those acquisitions at peak valuations...

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1. Editor's Choice

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