Should You Consider Aurora Cannabis (TSX:ACB) Stock at These Levels?

Description

Though the leading pot stock **Aurora Cannabis** (TSX:ACB)(NYSE:ACB) showed some recovery recently, uncertainty might continue to weigh in. Its immense volatility might have worked in favour of the traders, but long-term investors have been brutally burned. The stock has lost more than 75% in the last 12 months.

Aurora Cannabis's poor Q2 show

Aurora Cannabis yet again reported a loss in Q2 2020 that ended December 31, 2019. On the top line front as well, the company notably disappointed investors. Its revenues in Q2 increased just 3% year over year (YoY). This indeed came as a shocker, as the company had reported more than 100% YoY revenue growth in the previous seven consecutive quarters. To add to the woes, the company has indicated that the trend of weak revenue growth might continue in Q3.

What's even more concerning is, the company might not turn profitable in the foreseeable future. Being profitable could be a distant dream for Aurora Cannabis at the moment, but weak revenue growth could notably hamper investor sentiment. Some might fear that its top-line growth peaked out in Q1 2020.

However, I feel that it is still too early to say that. Edibles and vapes offer significant growth potential for the company. Also, a higher number of retail stores could play a big role in driving Aurora's top line.

Is production growth a concern?

Another important parametre investors should watch is Aurora Cannabis's production trend. In Q2, it produced 30,691 kg of cannabis, which was 26% lower than in Q1 2020. Continued lower production might concern investors. The company expects to produce 150,000 kg annually or higher this year.

Aurora Cannabis stock looks like a risky bet at the moment. The challenges appear to be quite dire. The black market could continue to pose a serious challenge for the industry. The stock could continue to be volatile, given the uncertainties.

Stretched valuation

From the valuation perspective, ACB stock looks to be trading at a premium. It is currently trading at a price-to-sales ratio of 7.4 times its estimated sales for the next 12 months.

We have considered a price-to-sales ratio instead of a price-to-earnings as it is a loss-making company. While a price-to-sales ratio could be high for growth companies, Aurora's current valuation multiple seems unwarranted.

It's not only Aurora; many peer cannabis stocks have also exhibited increased volatility levels recently. **Canopy Growth** stock lost more than 50% in the last 12 months. Unlike Aurora, Canopy Growth surprised investors with strong quarterly numbers this week. On the valuation front, Canopy Growth stock looks to be trading at a premium as well.

It should be noted that cannabis industry witnessed a stellar growth in the last few years. However, keeping the same expectation for the future could be hard to come by. The low prices of pot stocks might entice investors, but now may not be the best time to enter. In my view, Aurora Cannabis stock remains a speculative bet as of now.

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