More Than One Reason to Avoid Aurora (TSX:ACB) Stock

Description

There seems to be no respite for **Aurora Cannabis** (TSX:ACB)(NYSE:ACB) investors. The stock has continued to dig deeper heading toward $0. Broader markets have been trading weak since February due to the pandemic, but once-hot Aurora stock has been in a downward spiral since mid-2019.

Cannabis is now non-essentials

Aurora Cannabis stock lost more than 70% last year, and this year has lost another 60%. The stock could continue to trade weakly as the challenges are many.

Last week, the Ontario government ruled to classify cannabis as non-essential items. Thus, all cannabis stores in the most populous province shut down given the pandemic-driven lockdowns. The authorities earlier had classified cannabis as essential, giving the company and investors alike a ray of hope for higher sales.

However, the new verdict increases the pain of many cannabis players during the lockdown. It is evident that the pain could further increase if lockdowns are extended. Notably, cannabis is still categorized as essential in many other provinces, such as Quebec and British Columbia. Aurora Cannabis stock fell 6% after the order.

Concerning financials

Aurora Cannabis is already struggling to keep up with its top-line growth. It announced capital spending cuts and layoffs early this year as cash retention became necessary for the company. Aurora stock was one of the top performers in the last few years. From mid-2016 till early 2020, the stock rose by almost 2,300%.

For the quarter ended December 2019, the company reported revenue growth of just 3% year over year. It was notably disappointing for investors, particularly given its more than 100% revenue growthin the earlier seven consecutive quarters.

Also on the earnings front, Aurora Cannabis continued to upset investors. It looks like turning profitable could be a distant dream for Aurora.

In Q2, it produced 30,691 kg of cannabis, which was 26% lower than in Q1 2020. Continued lower production could also bother investors. The company expects to produce 150,000 kilograms annually or higher this year.

There seem some opportunities for Aurora, but how it plays out on them remains to be seen. Cannabis derivatives market in Canada poses a ray of hope for the top players in the industry such as Aurora. Edibles and vapes also offer significant growth potential for the company.

A higher number of retail stores could play a big role in driving Aurora's top line. However, the virus outbreak and lockdowns will have halted those efforts as well. To add to the woes, the black market could continue to pose a serious challenge for the cannabis industry.

Even at $1, Aurora stock's valuation is not encouraging

Aurora Cannabis stock fell below $1 last month. It has lost more than 90% since its 52-week high of $12 in April last year. Despite such a massive fall, however, the stock does not look attractive from the valuation perspective. It is trading beyond three times its estimated sales for the next 12 months.

Peer **Canopy Growth** stock was also weak since last year, albeit was relatively better. It has lost more than 65% in the last 12 months. Canopy Growth stock also does not look too encouraging on the valuation front. It is trading beyond 15 times its estimated sales for the next 12 months.

As stated, how Aurora Cannabis emerges from these challenges and plays out on opportunities will be interesting to see. Thus, Aurora stock could trade volatile in the short to medium term and could be a risky bet for investors.

CATEGORY

1. Investing
2. Top TSX Stocks

TICKERS GLOBAL

1. NASDAQ:ACB (Aurora Cannabis)
2. TSX:ACB (Aurora Cannabis)

PARTNER-FEEDS

1. Business Insider
2. Msn
3. Newscred

4. Sharewise
5. Yahoo CA

Category

1. Investing
2. Top TSX Stocks

Date
2025/07/08
Date Created
2020/04/08
Author
vinitkularni20