Aurora Cannabis (TSX:ACB) Stock: More Pain Ahead

Description

Speculative: it is a word that I have used to describe the cannabis sector since it first started making waves a few years ago. This week, **Aurora Cannabis** (TSX:ACB)(NYSE:ACB) announced a reverse stock split. This is yet another sign that the industry is struggling to gain a footing.

Pot stocks took the world by storm in late 2017, when it was clear the Federal government was going to legalize recreational marijuana. The TSX was littered with new entrants on the promise of significant demand. This led to rich valuations, as retail investors looked to get rich quick.

Unfortunately, the inevitable happened and in 2019, the industry came crashing down. The cannabis industry is in a year-long bear market with little to no signs of a rebound. Over this period, the Canadian Marijuana Index has lost 81.3% of its value. Ouch.

For its part, industry-leading producer Aurora Cannabis is down 91.21% over the past year. At these levels, there are many investors in the red. Don't blame COVID-19 either; this is a trend that started well before the virus attacked.

Lack of trust

Since the start of 2019, we've seen several high-profile events. From the ouster of CEOs to illegal activity and everything in between, you'd be hard pressed to find any bit of good news. In late December, Aurora Cannabis forced out then Chief Operating Officer Cam Battley. In February, Chief Executive Officer Terry Booth also stepped down.

Not surprisingly, there is now a significant lack of trust in industry leaders. Demand is less than forecasted, operational issues persist, and COVID-19 has simply exasperated all the previous issues.

In only a couple of short years since legalization, supply is already outstripping demand. Companies are shelving further expansion, and it has now become a fight for survival. Now, not even industry leaders such as Aurora Cannabis can find the liquidity necessary to maintain operations and expand.

Aurora Cannabis takes new steps

At one point, cannabis companies had nearly unlimited access to capital from lenders. Companies such as Aurora Cannabis frequently used their highly valued stock as a means to make acquisitions. Over the past year, M&A is all but non-existent.

Likewise, now that lending is drying up, there is only one way to mitigate issues and strengthen the balance sheet — equity raises. Pot stocks are tapping the equity markets at an unprecedented pace. Aurora is next in line.

Aurora Cannabis intends to file a new prospectus supplement for a secondary offering to raise additional equity capital. When used to fund growth, share issues can be a good thing. In this case, however, further shareholder dilution is simply a means to keep the company afloat.

Along with this, the company will "consolidate all of its outstanding common shares on the basis of one common share for every 12 common shares currently outstanding." In effect, this reverse stock split is a desperate attempt to increase its share price. Why now?

The company's share price is dropping to a point where it needs "to restore compliance with the NYSE's continued listing standards." That's right, without such a move, the company is at risk of being delisted from the NYSE.

This is how bad things are in the industry.

Despite the allure of low share prices, my thoughts on the industry haven't changed. It remains speculative at best. There are better places for investors to park their cash, as there is more pain ahead for Aurora Cannabis.

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