Is Aurora Cannabis (TSX:ACB) Really Turning Around?

Description

The Canadian cannabis giant **Aurora Cannabis** (TSX:ACB)(NYSE:ACB) reported its third-quarter earnings last week. Better-than-expected numbers sent the stock through the roof, surging almost 67% on Friday. There was a significant surge in its volume as well. Nearly 18 million shares exchanged hands against its three-month average daily volume of 1.1 million.

But is it really out of the woods? Let's dig a little deeper.

Aurora Cannabis: Quarterly earnings sent the stock through the roof

Aurora's quarterly numbers improved on several fronts compared to the quarter earlier. Michael Singer, Aurora's interim CEO and chairman, said, "We are turning this ship around, and it's a big ship," *BNN Bloomberg* reported.

Aurora's quarterly numbers were encouraging on some fronts. It reported quarterly net revenues of $76 million — an increase of 33% compared to the quarter earlier. Higher demand during the lockdowns played out well for Aurora Cannabis. Its top-line growth indeed came as a relief for investors compared to a dull second quarter. However, its revenues had more than doubled year over year in the fiscal year 2018 and 2019.

Notably, Aurora's losses widened in the recently reported quarter. Its loss came in at $1.37 per share against a loss of $1.08 per share in the second quarter. Importantly, losses widening despite a revenue increase could bother discerned investors.

The management expects it to turn EBITDA positive in fiscal Q1 2021, which is during the July-September quarter of 2020.

Aurora’s cash burn improves

Aurora’s cash burn was another highlight in its latest quarterly release. It burned $154 million in cash in the reported quarter, almost 43% less compared to the previous quarter. This indicates that the company is on track to its transformation plan announced in February. This lower cash burn could help it become EBITDA positive in the next quarter, as management expects.

It ended the quarter with $230 million in cash. Once struggling for cash, Aurora Cannabis now looks well capitalized, and this cash could keep it going for the next several quarters.

An increasing number of retail stores, along with advanced recreational product range, should help Aurora Cannabis’s sales. Top-line expansion and consistent efforts on trimming operating expenses might turn the company profitable.

What should investors do?

Many potential investors would have overlooked Aurora Cannabis, given its recent reverse stock split. Although Aurora stock has soared approximately 80% in the last two trading days, it is still down more than 50% so far this year. That’s largely been the trend for pot stocks recently. Slower demand growth, saturated markets, and regulatory concerns have mainly hampered cannabis stocks in the last few years. The **Horizons Marijuana Life Sciences Index ETF** has lost almost 70% in the last 12 months.

Investors can expect excessive volatility to continue in the Aurora Cannabis stock. While the stock looks well placed compared to a few weeks ago, it looks significantly overvalued at the moment. Investors can wait for a pullback to enter. Importantly, although Aurora Cannabis looks to be turning around, I believe its widened losses, despite a revenue increase, could concern investors.

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