



## This TSX Stock Is up 85% in 2 Days: Should You Exit or Hold?

### Description

Shares of **Aurora Cannabis** ([TSX:ACB](#))(NYSE:ACB) have jumped over 85% in the last two trading days. However, with the steep escalation in Aurora Cannabis stock, the big question cropped up as to whether investors should continue holding the stock or consider selling it.

### What's behind the recovery?

The recovery in Aurora Cannabis stock followed the company's [impressive Q3 performance](#) and positive adjusted EBITDA outlook. Aurora Cannabis posted [total net revenues](#) of \$75.2 million in the third quarter, implying growth of about 35% on a sequential basis. Moreover, total net revenues increased by about 16% year over year. Higher sales volumes and favourable product mix drove its top line.

Besides solid revenues, Aurora Cannabis managed to reduce its losses. Aurora Cannabis reported a net loss of \$137.4 million, which reflects a significant improvement both on the year-over-year and sequential basis. The improved bottom-line performance reflects higher sales and a reduction in costs.

In Q3, the company's cash cost declined to \$0.85 per gram from \$0.88 per gram in Q2. Moreover, its SG&A expenses fell about 20%, thanks to the company's efforts to reduce spending and focus on profitability. Aurora Cannabis posted an adjusted EBITDA loss of \$50.9 million, reflecting an improvement from \$80.2 million loss in Q2.

Investors should note that Aurora Cannabis is not yet profitable. However, management remains upbeat and expects to report positive adjusted EBITDA for the first time in the Q1 of fiscal 2021. The cost-reduction and efficiency program are likely to support the adjusted EBITDA.

Also, Aurora Cannabis is addressing two of its significant growth concerns. The lack of financing options led to a massive equity dilution over the past several years, which irked investors. However, the company's recent reverse stock split or stock consolidation announcement was a bit comforting. Further, Aurora Cannabis had a lot of goodwill in its balance sheet, the impairment of which remained a drag. However, the series of impairments has led to a reduction in the goodwill amount on its balance

sheet.

## Now what?

Despite the steep recovery in Aurora Cannabis stock, it is still down by about 54% so far this year. Meanwhile, it has declined by about 89% in one year. I am impressed with the company's Q3 financial performance, adjusted EBITDA outlook, stock consolidation and reduction in goodwill. However, I have a negative outlook on the sector.

The cannabis sector still has a host of problems, which will continue to hurt the stock prices of the companies operating in this segment, and Aurora Cannabis is no exception. The illicit pot market continues to thrive, thus posing a threat to the legal operators. Moreover, supply issues remain.

Further, the lack of financing options is another major hurdle. The large financial institutions, including banks, still don't choose to invest in the sector. The liquidity issues are often addressed by raising cash through the issuance of more shares, which an investor will not want.

Over the years, the cannabis industry has seen more and more companies coming into the market. Growing competition is no good news, as it has reduced the cannabis prices.

The fundamental issues in the sector, including price compression, lack of financing, and supply chain problems indicate that Aurora Cannabis stock is a sell on every rise.

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