Aurora Cannabis (TSX:ACB) Stock: $0 Is a Very Real Possibility

Description

Even before the coronavirus outbreak, the cannabis industry was already in chaos. The marijuana boom did not happen. Instead, investors got the shock of their lives.

Today, or 19.5 months after Bill C-45 became law, the state of the leading cannabis producer is still lethargic. There's a real possibility the shares of **Aurora Cannabis** (TSX:AC)(NYSE:ACB) will drop to zero.

Still a pipe dream

Bill C-45, or the *Cannabis Act,* is a milestone in Canada's legal history and a pipe dream. The federal government hoped to add more than $675 million in tax revenues to the national treasury annually.

The massive cash burns of industry leaders like Aurora Cannabis resulted in mounting losses. Other distressing factors include production shortages and supply bottlenecks, not to mention scandals and leadership shakeups.

Everything was pure hype, as investors keep losing money. Regaining investor confidence is like climbing Mount Everest. The black market is alive and making profits.

The carnage in the cannabis industry is no laughing matter. From $7.62 billion in August 2019, the market capitalization of Aurora Cannabis is down to $1.68 billion as of May 15, 2020. Had you invested in this weed stock on year-end 2019, your loss today would be almost 55%.

Using all means necessary

Aurora Cannabis is a complete disappointment. Its production facilities are the envy of peers. Noplayer can match the projected 660,000 kilos annual output as well as the international reach of this Edmonton, Alberta-based company. Many thought these two advantages would enable Aurora to scale and rule the cannabis world.

Unfortunately, the company is fighting to survive and avoid delisting on the **New York Stock Exchange.** Aurora did a reverse split recently, which would lump 12 shares into one. Share consolidation was necessary, or else it would lose its broad shareholder base in the U.S.

A reverse split, however, will not improve the fundamentals. Usually, stocks trade lower after companies make such a move. If the issuance of more shares to raise capital continues, there will be more shareholder dilution.

Some analysts are suggesting that Aurora reduce its global footprint because 93% of sales are domestic anyway. The company might not even reach the point to see its international market grow. Deep cuts in operations could help deliver positive cash flow.

No reason for jubilation

Aurora Cannabis rose 66.85% on May 15, 2020, after reporting a 34.8% growth in revenue (from $56 million to $75.5 million) for Q3 fiscal year 2020 versus the same period last year. Trading volume hit an all-time high of nearly 18 million.

Despite the better-than-expected results, there's no reason for jubilation. Aurora's total net loss is $137.4 million. The company had $230 million in cash and cash equivalents at quarter's end, but expects to burn $154.6 million in cash in the next quarter.

Investors have been aching to see profits because, for the longest time, it's been a lack of growth and high cash burn rate. Aurora remains on the knife's edge.

The earnings results in the Q3 fiscal year 2020 must be far, far better. Another flop could sink the weed stock into the abyss again.

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