



Aurora Cannabis (TSX:ACB) Stock: Is the Rally for Real?

Description

When the [COVID-19 lockdown](#) was triggered across Canada's provinces, I focused on sectors that had the chance to survive and even thrive. Cannabis is a very young industry, but it possesses some of the same qualities we look for in other recession-proof stocks. Alcohol has been historically resilient during tough economic times.

Early in the lockdown, cannabis sales surged in Ontario and Quebec. **Aurora Cannabis** ([TSX:ACB](#)) (NYSE:ACB), one of the top pot stocks on the **TSX**, has seen its stock increase 45% over the past month as of close on May 20.

Today I want to discuss why Aurora Cannabis has managed to rebound in the middle of spring. Should investors again have faith in Aurora and its industry peers? Let's dive in.

Why Aurora Cannabis has surged in May

Shares of Aurora had soared 114% week-over-week at the time of this writing. However, the stock is still down 87% year over year. In early March, I'd warned that Aurora's cash situation was [worth concern](#) to start the year.

This rally began with a post-earnings bump on May 15 following the release of the company's third quarter fiscal 2020 results on the previous day. Net revenue increased 18% year-over-year to \$78.4 million and consumer cannabis net revenue climbed 24% from the prior quarter to \$41.5 million. Aurora posted a net loss of \$50.9 million, down significantly from its \$1.3 billion loss in Q2.

Total cannabis sales increased 32% from the prior quarter to \$69.6 million. Approximately one-fifth of its recreational sales were with new "Cannabis 2.0" products. Perhaps most important, Aurora lowered its quarterly cash burn to roughly \$143 million over \$265 million in the previous quarter. Aurora Cannabis has even hinted that it is on track to report a positive EBITDA by Q1 fiscal 2021.

How the lockdowns have boosted cannabis

Cannabis was one of the early beneficiaries of the COVID-19 lockdowns that have ravaged the domestic economy. Aurora was one of several producers to report higher sales in the months of March and April. However, this surge has tapered off in May. Aurora reported a pantry-loading in late March which has since dissipated.

Ontario Cannabis Store Director of Communications Daffyd Roderickfor said that orders have “maintained at the 5,000+ orders per day level,” a much higher rate than pre-pandemic buying levels. Canada and the United States have also reported higher alcohol sales, and it appears that cannabis is benefiting from the same phenomenon. North Americans are eager for distractions during this crisis.

Should you buy Aurora today?

Aurora Cannabis unveiled more positive news on May 20. It agreed to purchase the U.S.-based CBD company Reliva, giving Aurora a much-needed foothold south of the border. Shares were up in after-hours trading at the time of this writing.

It's been tough to trust the cannabis sector over the past two years, but these are promising signs for Aurora. The fledgling cannabis sector has proven robust during this period of economic turbulence.

Aurora Cannabis stock last possessed a favourable price-to-book value of 0.5. Moreover, it has bolstered its balance sheet and still boasts attractive growth potential.

While cannabis will continue to be a volatile sector, Aurora is on track for improvement in the first half of this decade.

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