Is Aurora (TSX:ACB) Stock a Buy Right Now?

Description

Shares of cannabis giant **Aurora Cannabis** (TSX:ACB)(NYSE:ACB) have made a strong comeback in the last month. Aurora stock is trading at $19.8 which is 165% above its 52-week low. Despite the recent rally, Aurora stock is still down 85% from 52-week highs, shows the absolute carnage in the Canadian pot industry over the last 15 months.

Aurora Cannabis and peers have been plagued with structural issues, including lower than expected demand, high inventory levels, and mounting losses. Let's see if Aurora Cannabis is poised to continue its upward surge in the second half of 2020.

What drove Aurora stock higher recently?

Aurora Cannabis announced better than expected third-quarter results last month, sending its stock significantly higher. Aurora Cannabis reported revenue of $78.4 million, a sequential growth of 18% and above analyst estimates of $66.7 million. The company's top-line was driven by robust growth in its recreational and medical cannabis businesses.

Aurora Cannabis then announced its acquisition of Reliva, a top-selling CBD (cannabidiol) brand. This acquisition will allow Aurora to enter the massive CBD market south of the border. Aurora expects the deal to improve profit margins as well, which cheered investors.

Aurora not out of the woods yet

The recent upward spiral in Aurora's stock price might not be sustainable. In the last few months, Aurora Cannabis had to raise capital to keep running operations, enact a reverse stock split to keep trading on the **NYSE**, lay off over 500 employees, halt construction on two cultivation projects, and more.

To regain investor confidence, Aurora's management will have to focus on improving profit margins. The pot heavyweight has diluted investor wealth to increase its cash balance. For example, Aurora's share count has increased from 1.3 million in 2014 to over 110 million right now — and this is after the reverse split.

The Reliva acquisition is valued at US$40 million and Aurora's board approved another US$350 million at-the-market share offering. How long can Aurora continue to dilute shareholder wealth? It has to lower operating costs and cash burn over the next few quarters.

At peak capacity, Aurora Cannabis can manufacture over 660,000 kilograms of cannabis annually. However, Canada is grappling with oversupply issues. Aurora Cannabis and peers will have to expand into international markets to lower inventory levels as well as write-downs.

Aurora's international sales account for less than 10% of total sales right now. While the recent acquisition will help it gain a strong foothold in the U.S., the pot leader should look at other international markets in Europe for growth and expansion.

Another point of concern for investors is Aurora Cannabis' less than impressive balance sheet. In the fiscal second quarter, the cannabis company had to write-down $1 billion in net assets including $762.2 million in goodwill write-down.

Over the years Aurora paid a premium to acquire companies reported as goodwill on the balance sheet. At the end of Q3, the company's goodwill stands at a massive $2.41 billion, accounting for 51.2% of total assets.

What's next for investors?

Despite Aurora's recent stock price momentum, it remains a high-risk investment. In case it is unable to improve profitability, shareholder wealth will dilute further. Investors can also expect multi-million-dollar write-downs given the astonishing goodwill figure and high inventory levels.

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Date
2025/08/24
Date Created
2020/06/11
Author
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