3 Reasons to Sell Aurora Cannabis (TSX:ACB) Stock

Description

Aurora Cannabis Inc (TSX:ACB)(NYSE:ACB) stock has been getting a lot of attention lately. After delivering better than expected Q3 results, the stock went on an impressive rally, rising 59% in May. Since then, the stock has resumed its slide, but investors' curiosity has been piqued.

Aurora is currently the ninth most popular stock on Robinhood, making it the most popular cannabis stock on that platform. It was also the best-performing cannabis stock in May.

While ACB is trendy at the moment, it might be best to take a breather before buying it. While the company is still growing, it's also losing money at a rapid pace. Current management is making moves to reverse that trend, but so far those efforts have not paid off.

If things don't turn around soon, it may be game over for the company. With that in mind, here are three reasons to consider selling Aurora Cannabis stock.

Revenue growth decelerating

For years, the bullish case on cannabis stocks was based on revenue growth. Sure, these companies were losing money, but with 200% year-over-year revenue growth, they'd easily turn profits sooner or later — or so it seemed. The problem is that after the huge initial bump from cannabis legalization, licensed producers' revenue growth slowed considerably.

Aurora was a perfect case in point. In the third quarter, it brought in $75 million in net revenue, up from $65 million a year before. That's only 15% growth. Last year, the company was regularly growing revenue at more than 100% year over year. So while Aurora's revenue growth may have beaten expectations, it was nothing like what it was last year.

Huge write-downs coming

Another big issue facing Aurora is its goodwill impairment. In the lead-up to legalization, the company spent billions on acquisitions, hoping to gobble up market share. Those acquisitions represent billions of dollars of goodwill on Aurora's balance sheet. The problem is that a lot of those assets are proving to be nearly worthless.

Take MedReleaf for example, the cannabis company that Aurora acquired for CAD$3.2 billion. It was supposed to produce 140,000 kilograms of cannabis for Aurora each year. The problem is that MedReleaf's Exeter plant ran into issues and had to be sold at a loss for $8.6 million.

That one plant was supposed to produce 105,000 kilograms of the 140,000 kilograms that MedReleaf was to produce. So there's no chance that that company is worth $3.2 billion. The goodwill will almost certainly be written down, sending Aurora's book value lower.

Still not profitable after all these years

A final point worth mentioning about Aurora is that it's still losing money, even with management's plan to cut costs. In its most recent quarter, the company lost $80 million from operations, greater than the $70 million loss a year before.

The single quarter net loss was smaller than in the prior year quarter, although the net loss for the nine month period was over a billion dollars larger.

Given that the past nine months include a massive $760 million impairment charge, that's hardly surprising. Normally, we'd consider that a non-recurring factor that doesn't reflect long term trends, but for a company like Aurora, billion dollar write-downs are actually quite likely to recur in the future.

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