Don’t Buy Aurora Cannabis Stock — Even After the Over 10% Dip in June

Description

Shares of **Aurora Cannabis** (TSX:ACB)(NYSE:ACB) turned negative in June. As of June 29, the stock was down by 11.7% in June after posting solid 57.4% gains in May. While the stock has risen by 12.6% in the second quarter so far, its 50% year-to-date value erosion — against a 9.8% decline in the **S&P/TSX Composite Index** — continues to disappoint investors.

While the shares of other pot companies such as **Canopy Growth** and **Hexo** have also seen 18.2% and 50.7% drop in 2020 so far, they outperformed Aurora Cannabis in June.

Let’s review Aurora Cannabis’ key developments in June and find out what has hurt its investors’ sentiments lately.

Overbought in May

While Aurora fell by over 10% in June, the sell-off in its stock started in late May. After the company released its third-quarter earnings report on May 15, Aurora Cannabis’ stock witnessed a staggering 122% price rally in just three-day period. In my opinion, this rally was overdone.

On May 21, the company announced its plan to acquire Reliva — a CBD product retail brand from the U.S. — to help it strategically enter the U.S. market.

The acquisition news extended the gain in the already overbought Aurora stock. As a result, it registered a massive 162% gains between May 15 and May 21. Since then, its stock has been falling consistently.

In the third quarter of fiscal 2020, Aurora’s revenue rose by about 16% year over year to $75.5 million. However, its adjusted net loss per share more than doubled to $1.32 per share. With this, the company also missed Wall Street analysts’ estimate of $0.76 loss per share.

Also, Aurora Cannabis reported a decline in its adjusted gross profit margin to 42.2% as compared to 55.6% a year ago. This is one of the reasons why I believe its stock over-rallied after its third-quarter results.

Key factors in June

Last week, Aurora announced its key business transformation plan. Per the plan, Aurora Cannabis expects to reduce about 30% of its production staff over the next two quarters. It will help the company significantly reduce its costs going forward.

This news therefore can't be considered a negative development. The move attracted a mixed reaction from Wall Street analysts, however.

On June 16, Aurora Cannabis announced the retirement of co-founder, President and Director Steve Dobler. In similar news, yesterday the company revealed that its CEO and co-founder Terry Booth will also retire effective June 26.

The departure of both the co-founders seems to have disappointed investors, as its stock has fallen by 8.2% and 5.1% in the last five days and 10 days, respectively.

Don't buy Aurora Cannabis stock right now

While the ongoing pandemic has increased market volatility lately, the shares of most cannabis companies, including Aurora, tend to remain highly volatile.

This is the reason why I wouldn't recommend buying these stocks to investors with a conservative investment approach and low-risk appetite.

Also, after its massive price rally in May, I still find Aurora's stock overvalued.

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jparashar