Aurora Cannabis (TSX:ACB): Why You Should Avoid This Pot Stock

Description

Although **Aurora Cannabis** (TSX:ACB)(NYSE:ACB) is one of the most popular pot stocks among young investors, there are better plays in the marijuana sector now.

The pot producer seemed to be on the right path last year

At that time last year, Aurora Cannabis seemed to be on the way to success. It had completed more than a dozen acquisitions and was to lead Canada with more than 650,000 kilograms of peak annual production. Aurora also had access to two dozen markets outside of the country.

But Aurora's dreams were shattered by regulatory-based supply issues in the Canadian market, as well as by its own poor risk management and balance sheet.

One of Aurora's biggest problems is that its acquisition-oriented approach has left it in a cash bind. Despite stopping construction of two of its largest projects, the sale of a one million square foot greenhouse, the layoff of 500 workers and the commitment to reduce its sales, general and administrative (SG&A) expenses by at least 55% in just three quarters, there is still no guarantee that Aurora will comply with its new debt covenant or achieve operating profitability.

In fact, the only way Aurora can generate cash now is by selling its common stock. Aurora rolled up its shares in May to give investors a share for 12 after the **New York Stock Exchange** warned that it could be delisted after its average share price fell below a dollar for 30 consecutive trading days. The number of Aurora shares has increased from approximately 1 million to 110 million since June 30, 2014.

Aurora surged in May on strong sales

Aurora Cannabis stock surged in May after the company announced better-than-expected quarterly sales. Revenues jumped 18% from the previous quarter due to strong demand for their line of consumer products. But the pot producer lost more money than expected.

Despite writing down more than $1 billion in goodwill just two quarters ago, Aurora still carries $2.4 billion on its balance sheet, which represents more than half of the total assets of the company.

Aurora Cannabis stock also increased in May after the company announced it was entering the U.S. retail CBD market with the acquisition of hemp-based cannabidiol company Reliva LLC.

But shares have lost a third of their value since May 21. The pot producer announced in June that co-founder Steve Dobler step down as president and director at the end of the month. Co-founder and CEO Terry Booth retired from the company's board of directors at the end of June.

The company still hasn't announced a new permanent CEO. The longer it takes, the more the stock might drop. In addition, who Aurora chooses as CEO is important because if the market is unhappy with the hiring, this highly anticipated news could ultimately drive a decline in the stock.

Aurora is a risky bet

Aurora plans to close five facilities, lay off approximately 700 workers, and anticipates a $60 million charge in the next quarter. The moves are part of its business transformation plan announced in February.

Aurora's risk/reward is still not good enough to make it a buy, however. Earnings are expected to fall by 291% this year to -$13.62 a share. That's a huge loss. In 2021, the pot company's situation should improve. Earnings are expected to grow by 91% to a loss of 1.30 per share.

As Aurora stock will likely continue to fall in 2020 on poor results, it's better to avoid this pot stock.

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Date
2025/08/23
Date Created
2020/07/22
Author
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