



Cannabis Demand Is at Record Highs: Time to Buy Aurora (TSX:ACB)?

Description

The pandemic has changed the market in unprecedented ways, and one of them was driving the cannabis demand higher in the country. There was a 19% increase in adult-user Cannabis sales from February 2020 to March 2020 — and the trend is continuing.

Cannabis producers across the country are raking in record sales. The month of June was a hit, and July is expected to be another record-breaking sales month.

Cannabis demand isn't diminishing, and Canadians aren't the only ones who are banking on cannabis to make this stressful period more bearable. The sales are increasing all across the globe, and many Cannabis producers are expected significantly better numbers for the next quarter. New York is also considering legalizing cannabis to add to the badly needed tax dollars.

The cannabis industry in Canada

The cannabis industry in the country became a bust after the initial boom, and even the second phase of legalizing (Cannabis 2.0) couldn't do much to boost the industry. There were many factors behind the poor performance of most of the players in the sector, but one common denominator has been the black market and its unusually low prices.

The picture changed a bit during the COVID-19 pandemic. Cannabis demand reached yearly high numbers, and the trend has sustained for at least four months now. One producer that had revenues of about \$221 million in 2019 expects a four-fold increase this year and generates about \$1 billion in revenues.

But it's not as straight forward. Currently, Canadians' buying power has been artificially propped up by government stimulus packages, while unemployment is at an all-time high. Sooner or later, the stimulus will run out, and if most Canadians haven't found a job or started earning another way before that time comes, the discretionary Cannabis spending might take a hit.

Time to buy?

If the industry is rebounding, is it time to buy in? Especially into a stock that's fallen the hardest in the last couple of years: **Aurora Cannabis** ([TSX:ACB](#))(NYSE:ACB). [Aurora Cannabis](#) started as one of the strongest and largest players in the game, trading well over \$150 at one point.

Right now, the stock is trading below one-tenth of that valuation, at \$14 per share at writing. After the brief rally in May, before that, the stock was trading in single digits.

The company brutally diluted its stock value in order to fund its aggressive acquisition strategy and to increase the size of its global footprint. But the same period that boosted cannabis sales in Canada didn't serve Aurora well in Europe, where sales actually dropped.

This has caused Aurora to close up offices in Italy, Portugal, and Spain, and consolidate its European presence to its Denmark facility.

While the Cannabis industry seems well poised for growth, at least for now, Aurora might not be the best horse to back in this race.

Foolish takeaway

Lack of stimulus isn't the only dark cloud on the horizon of the cannabis industry. The lockdowns and social distancing measures might've curtailed the illegal cannabis industry a bit, driving consumers toward legal vendors. But once the country fully reopens again, the situation might revert to where most buyers preferred cheaper illegal cannabis over costly legal vendors.

Even if it doesn't, and the cannabis industry is finally on the right track, Aurora [remains a risky bet](#). The current rally is already weakening. The stock is already 40% down from its recent high in May. Other stocks in the sector have been more successful in riding this current wave and keeping valuations high.

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Author

adamothonman

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