



Aurora (TSX:ACB) Stock Posts a Huge \$1.8 Billion Writedown in Q4

Description

The Canadian cannabis sector has had a few very tough years. There is a severe lack of a recognizable brand in the business, too much dried marijuana without the market to match demand, supply chain problems, boardroom scandals, and much more have decimated billions in market value for the legal cannabis industry.

Amid all this, Edmonton-based **Aurora Cannabis** ([TSX:ACB](#))(NYSE:ACB) has been a leading company in the industry. It has also taken a brunt of the damage from all the problems in the sector. It seems that there is now a chance for the company to see a massive rebound.

Outlook for the legal weed sector

The cannabis sector had several issues to begin with. However, shareholders have managed to resolve many of the problems in the industry. The companies now have better management teams to provide improved oversight after shareholders pushed out the old regime. The [price for legal recreational marijuana](#) has significantly gone down to compete with the black market price per ounce.

The significant surge in demand for marijuana over the past several months resolved much of the oversupply issues. Between February and March 2020, cannabis use increased by almost 20%. Adult users turned to cannabis as economies shut down, and they were limited to their homes. The increased demand could speed up the Cannabis 2.0 product rollout.

Aurora Cannabis

At writing, Aurora Cannabis is trading for \$9.76 per share. The stock has lost more than 94% of its value from its all-time high in 2018. With deeply discounted shares, some investors might have expected people to be grabbing all the shares they could. However, pot stocks are not in the news anymore, and people don't seem that interested.

It is possible to consider ACB in oversold territory. The company's price-to-book ratio is 0.27, while its

price is \$9.76 per share. Its debt-to-equity ratio is 15.20%. The stock looks like it is in sound enough financial shape to survive several years until it can gain traction.

The new writedown

Aurora Cannabis also warned that it expects to record a record writedown estimated between \$1.6 billion to \$1.8 billion. The company's head of U.S. operations, Miguel Martin, was promoted to CEO and is the man in charge to lead Aurora through the massive writedown. The company expected the writedown of up to \$1.8 billion of goodwill and intangible assets when it reports its Q4 2020 results on September 22, 2020.

The company expects revenue for the next quarter to be between \$70 million and \$72 million — a decline from the previous quarter's \$75.5 million earnings. The company also announced the end of the deal it made with UFC to collaborate on multiple CBD products. Ending the contract will cost ACB US\$30 million.

Foolish takeaway

With Miguel Martin as the new CEO for the company, Aurora Cannabis plans to focus on providing high-margin and premium-quality products to the market. It recognizes the lack of competition in the premium segment in Canada's recreational marijuana market. ACB has the right infrastructure to fill the demand.

Whether all this means that ACB will climb back to its 2018 highs is unlikely. However, I think it is a precursor for much better times in the legal cannabis industry. Barring [another major stock market crash](#), ACB could be on its way up.

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Author

adamothonman

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