



## Why Did Aurora Cannabis (TSX:ACB) and Canopy Growth (TSX:WEED) Zoom Higher Yesterday?

### Description

While the broader markets were rangebound on October 19, marijuana stocks including **Aurora Cannabis** ([TSX:ACB](#)) and **Canopy Growth** gained significant momentum yesterday.

Aurora Cannabis stock closed 16.2% higher, while Canopy Growth, **OrganiGram**, and **Cronos** returned 11.2%, 6%, and 5.3% respectively yesterday. The upward spiral in pot stocks was primarily driven by a CNBC report that outlined the advantages for marijuana companies in case Joe Biden wins the Presidential race later this year.

CNBC claimed a win for the democrats will result in the decriminalization of adult-use of cannabis as well as the legalization of medical marijuana. Further, states such as Arizona, South Dakota, and Montana are voting on marijuana legalization in November, and there is a good chance for Mississippi to legalize medical cannabis sales as well.

This means the [total number of states](#) south of the border where medical marijuana is legal will increase to 38 by the end of 2020.

### Aurora stock is down 81% in 2020

Despite the double-digit gain for Aurora stock yesterday, it has still lost a massive 81% year to date. It fell [over 50% in September](#) on the back of poor quarterly results. In Aurora's fiscal fourth quarter of 2020, the company reported sales of \$72.1 million, indicating a sequential decline of 5%. Sales were also lower than analyst estimates of \$79.6 million.

For the September quarter, Aurora forecast cannabis sales between \$60 million and \$64 million, indicating a sequential decline between 5.3% and 11.2%. Though the company's EBITDA loss of \$34 million was significantly lower compared with its loss of \$50.4 million in Q3, Aurora continues to struggle with severe cash burn and liquidity issues.

Now, Aurora's management said it aims to report an operating profit in the second quarter of fiscal 2021 ending in December. However, the cannabis heavyweight will have to navigate several hurdles to achieve this goal.

## Has the pot stock bottomed out?

Aurora Cannabis has pumped in millions of dollars to expand its production facilities over the years. At its peak, Aurora had the capacity to produce 625,000 kilograms per year and was one of the largest cannabis producers in the world.

However, in the June quarter, it just sold 16,748 kg of marijuana, which shows us that Aurora and pot peers are grappling with oversupply, which meant the company's net selling price for cannabis flowers fell by 30% in Q4.

Further, Aurora also reported a \$1.6 billion write-down in goodwill impairment charges indicating it has grossly overpaid for acquisitions. It ended Q4 with \$139 million in inventory and we can see why Aurora continues to disappoint investors.

Several analysts expect Aurora to remain unprofitable for at least three more years which should worry investors given the company just has \$165 million in cash, while its debt balance is a massive \$531 million. There is a good chance that the company will have to issue additional stock, which will continue to dilute shareholder wealth in the near-term.

## The Foolish takeaway

Aurora stock is trading at a forward price to sales multiple of 2 and a price to book value of 0.3. While it is one of the cheapest marijuana companies, ACB stock is more a value trap than a contrarian buy given the weak fundamentals and industry-wide issues.

### CATEGORY

1. Cannabis Stocks
2. Investing

### TICKERS GLOBAL

1. NASDAQ:ACB (Aurora Cannabis)
2. TSX:ACB (Aurora Cannabis)

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