# Aurora Cannabis (TSX:ACB): This Pot Stock Fell 9.5% on an Analyst Downgrade

### Description

Shares of pot giant **Aurora Cannabis** (TSX:ACB)(NYSE:ACB) slumped 9.5% on October 27 after investment bank Cantor Fitzgerald downgraded the stock from “overweight” to “neutral” and reduced its 12-month price target from $18 to $9, according to a report from TheFly.com.



Before the market opened yesterday, Aurora Cannabis disclosed it completed the previously filed at-the-market (ATM) program. Aurora said it now has US$272 million in proceeds from the previous ATM program and proposed to sell a further US$500 million in common shares, preferred shares, subscription receipts, debt securities, and warrants in the next 25 months.

This indicates a further dilution in shareholder wealth, which resulted in the Aurora stock downgrade and a revised price target.

According to Cantor Fitzgerald analyst Pablo Zuanic, Aurora’s disclosure is not in line with its guidance. Further, Zuanic believes Aurora will not be in a position to take advantage of potential regulatory changes in the U.S. due to its weak fundamentals.

Aurora Cannabis has a market cap of US$505 million, and this equity raise will dilute existing shareholder wealth by 50%.

## Aurora Cannabis stock is down 91% from a 52-week high

The recent price decline meant Aurora Cannabis stock ended the day at a price of $5.24. The marijuana heavyweight continues to burn investor wealth and is down 91% from its 52-week high.

Aurora stock lost 50% in market value in September after the company reported less-than-impressive quarterly results and provided tepid guidance. In the fiscal fourth quarter of 2020 ended in June, Aurora reported sales of $72.1 million, which was a sequential decline of 5%. Further, the company expects sales in Q1 to fall between 5.3% and 11.2%.

Aurora Cannabis continues to burn significant cash and reported an EBITDA loss of $34.6 million in

Q4. This means its EBITDA loss in the last two quarters stood at $85 million, and we can see why the company has to raise additional capital to continue operations.

After accounting for its reverse stock split earlier this year, Aurora's share count has risen 80-fold from just 1.3 million shares in 2014, and this number will move higher given recent developments.

## What's next for Aurora stock and investors?

Aurora has tried to cut costs and improve profit margins in 2020. At its peak capacity, the company had 15 production facilities allowing it to grow 600,000 kg of cannabis per year. It also had access to two dozen international markets and is expected to benefit from economies of scale.

It shut down five small facilities and sold a one-million-square-foot facility in 2020 to cut costs and reduce cash burn. Aurora also reported a $1.6 billion write-down in goodwill impairment acquisitions, indicating it spent heavily on overvalued acquisitions over the years.

Despite the billion-dollar write-downs and shareholder dilution, Aurora Cannabis paid bonuses to its top management. According to the latest filings, the company's executives received salary increases ranging from 9% to 6%. The share and option-based awards were up 58% year over year at $9.8 million.



There are several structural issues grappling this loss-making company, and the stock may move lower by the end of 2020.

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