



Aurora Cannabis (TSX:ACB) Surged 135% in 1 Week: Are Pot Stocks Back?

Description

Last week, **Aurora Cannabis** ([TSX:ACB](#))(NYSE:ACB) shares soared 135% in a single week, breaking a months-long downtrend. The rally occurred around the same time that the company announced it expected \$64 million in sales in Q1. Aurora's quarterly report for Q1 fiscal 2021 isn't finalized, but people are still expecting the company to deliver solid results. If it does, then perhaps last week's rally will continue into this week.

What explains the rally?

There are two theories widely circulating to explain Aurora's massive rally last week:

1. Upcoming earnings.
2. Short-sellers covering their sales.

The first theory merits some explanation. Aurora is expecting to deliver \$64 million in sales in Q1, which is down from \$70 million in the same quarter a year ago and [\\$72 million in the previous quarter](#). The expected sales decline looks bad on the surface. However, Aurora has spent much of 2020 spinning off business units, in a bid to strengthen its balance sheet. In this context, the lower revenue could be a positive. If Aurora's revenue only declines slightly after it sells off unprofitable assets, then that may improve overall profitability. That would be an unambiguously positive development.

There's also the theory that Aurora rallied due to [short-sellers covering their positions](#). This theory was advanced by Keith Speights of Fool.com. When short-sellers buy back shares to cover their positions, that results in a short-lived rally. According to Speights, up to 19% of ACB shares were being sold short as of October 15. If that's the case, then those short-sellers may have covered their positions later, leading to an illusory rally.

ACB is still losing money

Despite the optimism some feel toward Aurora Cannabis, the company still losing money. A lot of it. In

fiscal 2020, the company had a staggering \$3.3 billion net loss. That was partially due to non-cash factors like impairment, but even if you look at cash flow, the situation wasn't good. ACB lost \$337 million in cash from operations and also had net outflows from financing and investing activities.

The company's upcoming quarterly report is going to be interesting in light of this. The reason why \$64 million in revenue is being described as a positive is because it comes after several asset spinoffs. If Aurora can still bring in \$64 million in sales after selling its underperforming businesses, then maybe it has a future ahead of it after all.

We'll just have to wait and see. Aurora has had profitable quarters before, and there's no reason it couldn't have more ahead of it. But just like 2020's massive losses were due to non-recurring factors, so were its previous profitable quarters. The company has generally lost money in terms of cash flow. So, despite last week's gains, it's far from certain that this company can turn its situation around.

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