Down 70% in 2020, Is Aurora Cannabis (TSX:ACB) Stock a Buy Right Now?

Description

While tech stocks drove markets to record highs in 2020, pot stocks continued to struggle and remained extremely volatile last year. Shares of top cannabis producers such as **Aurora Cannabis** (TSX:ACB)(NYSE:ACB) lost close to 70% in market value in 2020, burning significant investor wealth.

Driven by this massive dip in its shares, however, ACB stock is currently trading even lower than its Initial Public Offering (IPO) price. If you bought $1,000 worth of ACB shares during its IPO in 2014, your investment would be valued at less than $900 today.

However past returns don't matter much for future investors and let's take a look to see if it makes sense to invest in the marijuana giant right now.

Aurora Cannabis has been hit by a slew of structural issues

Over the last two years, Aurora Cannabis has been impacted by a thriving black market in Canada, a rise in competition, and the slow rollout of retail stores across the country. This in turn resulted in high inventory levels, lower profit margins, and billion-dollar write-downs.

Shortly after marijuana was legalized for recreational use in Canada, Aurora Cannabis went on an acquisition spree and bought companies at a premium. Over the last few quarters, it has written down billions in goodwill impairment charges.

Further, due to negative profit margins, the company continues to burn cash at an astonishing rate, which meant it had to raise equity capital to keep operations running. This massive dilution of shareholder wealth also weighed on its stock price that was driven lower in the last 18 months.

Can ACB stock stage a turnaround in 2021?

In order to reduce the cash burn, Aurora Cannabis implemented several cost-cutting measures. It closed multiple production facilities and scaled back production in other sites. The company's management also laid off employees and reduced capital expenditures.

CEO Miguel Martin was optimistic about improving cash flow generation, and expected Aurora Cannabis to be EBITDA positive in the December quarter. However, a recent business update stated Aurora's "back to basics" business strategy will delay its ability to achieve a positive EBITDA as it continues to invest in its consumer business.

This suggests that Aurora Cannabis will keep raising capital by issuing equity shares in the near-term which will continue to impact its stock price negatively. In the first quarter of fiscal 2021, ACB used $108.5 million for operating expenses and another $15.8 million in capital expenditures.

Another important aspect that investors should note is that the company is losing market share in Canada's recreational marijuana market.

Valuation and more

Aurora Cannabis is valued at a market of $2.22 billion indicating a forward price to sales multiple of 7.45. Analysts expect its sales to rise by 6.9% to $298.2 million in 2021 and 29.6% to $386.44 million in 2022. Its loss per share is forecast to narrow from $1.26 in 2021 to $0.63 in 2022.

We can see that analysts expect Aurora Cannabis to report a loss for another seven quarters. While this stock is not trading at a very expensive valuation, it carries significant risks, especially if shareholder wealth is constantly diluted.

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