Should You Buy Aurora Cannabis (TSX:ACB) After its Q2 Earnings?

Description

Last week, **Aurora Cannabis** (TSX:ACB)(NYSE:ACB) reported its second-quarter earnings. The company's top line and bottom line failed to meet analysts' expectations. However, the company's sales improved on a year-over-year basis. So, given the favourable factors in the cannabis space, should you buy Aurora Cannabis at these levels? First, let's look at Aurora Cannabis's second-quarter performance and its growth prospects in detail.

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Aurora's second-quarter performance

In the second quarter, Aurora Cannabis reported net revenue of $67.7 million, which fell short of analysts' expectation of $69.4 million. However, the company's top line grew by 28% year over year, driven by consumer and medical cannabis sales growth. Its consumer cannabis sales grew 25% amid strong Cannabis 2.0 product sales growth.

Meanwhile, the company's medical business division posted an impressive growth of 42% amid growth in both international and Canadian markets. Supported by its expansion in its European business and exports to Israel, Aurora's international medical sales grew 562%.

The company's adjusted gross margins declined primarily due to the underutilization of its capacity amid its decision to close some of its production facilities to align its production levels with demand better. However, the company took significant strides towards achieving positive adjusted EBITDA amid its decline in adjusted EBITDA losses from $53.1 million to $12.1 million due to higher sales and decreased SG&A (selling, general, and administrative) expenses.

With many of its long-term projects complete, Aurora Cannabis's capital expenditures declined from $128 million in the previous year's quarter to $8.8 million. Excluding capital expenses, the company used $22.7 million in cash to fund its operations. Amid the decline in its SG&A costs and capital investments, the company hopes to attain positive cash flows soon. The company's financial position also looks healthy, with around $565 million of cash in hand as of February 10.

Growth prospects

Aurora Cannabis continues to strengthen its position in domestic and international medical cannabis markets through its infrastructure, regulatory experience, and compliance systems. The company's management hopes to attain gross margins of 60% in its Canadian medical business soon.

Moving to the international market, Aurora Cannabis has one of the largest geographical footprints, with its revenue generated from 13 countries. In Germany, the company is an established player in the flower category and is looking to strengthen its oil market position. Meanwhile, the company has recently announced expanding its operations in Israel, France, and Australia, driving its sales in the coming quarters.

Further, Nielsen has ranked Aurora Cannabis's Reliva as the top CBD product in the United States. It has expanded the availability of its products to over 22,000 stores. The company's management also hopes that its distribution, regulatory experience, and relationships would grow its THC business once the federal government legalizes cannabis. So, Aurora Cannabis's growth prospects look healthy.

Analysts' recommendations and bottom line

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Despite its improved second-quarter performance, analysts continue to be bearish on Aurora Cannabis. Of the 17 analysts covering the company, 11 have issued a "hold" rating, while the remaining six analysts have given a "sell" rating. The consensus price target stands at $11.16, representing a potential fall of around 30% from its current stock price.

Since Aurora reported its second-quarter earnings, Bill Kirk of MKM Partners has downgraded the stock from "neutral" to "sell." However, Pablo Zuanic of Cantor Fitzgerald raised his price target from $17 to $18 while maintaining his "neutral" rating.

I was skeptical about Aurora Cannabis's second-quarter performance. However, the decline in its SG&A expenses and adjusted EBITDA losses are encouraging. With the world approaching medical cannabis more favourably and compassionately, Aurora Cannabis is well positioned to benefit from the medical cannabis growth. Amid the recent pullback in cannabis stocks, Aurora Cannabis is trading at a discount of 44.2% from its 52-week high. So, I believe investors with three years of investment horizon could invest in the stock for higher returns.

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