Will Aurora Cannabis (TSX:ACB) Stock Add to its 30% Gain in 2021?

Description

Shares of marijuana stocks have experienced a significant uptick in the last three months. Ever since Joe Biden won the presidential race south of the border, investors are optimistic that the Democrats will decriminalize or even legalize marijuana consumption at the federal level.

These developments meant shares of **Aurora Cannabis** (TSX:ACB)(NYSE:ACB) have returned close to 30% year to date. Despite the recent rally, ACB stock is still trading 93% below its record high.

Aurora Cannabis stock has, in fact, been one the worst performers in the cannabis space, as it continues to grapple with widening losses, lower-than-expected demand, massive inventory write-downs, and significant dilution of shareholder wealth.

Let's take a look to see if the stock is a good buy right now.

Aurora Cannabis reports Q2 results

Last month, Aurora Cannabis disclosed its fiscal second-quarter-of-fiscal-2021 results and reported sales of $70.3 million. This meant the top line grew 11% year over year in Q2. The company also managed to report an EBITDA loss of $12.1 million, which was lower than its prior-year loss of $53.1 million.

Further, Aurora Cannabis also reduced its cash burn by 74% to $70.5 million in Q2. However, it still recorded impairment charges of $221.6 million, which was attributed to its plant, property, and equipment, as the company focused on downsizing operations in the last few quarters.

ACB is also expected to benefit from a rebound in sales in Canada's marijuana market after several quarters of oversupply. The company sold 15,253 kg of dried cannabis in Q2 — a significant increase of 61% compared with the prior-year period.

The U.S. market is not looking too good for ACB

While Aurora Cannabis has managed to lower losses and improve its top line in Q2, investors would be worried about the company's sales south of the border. In May 2020, ACB acquired U.S.-based CBD company Reliva that had a trailing 12-month revenue figure of US$10 million.

However, in the last two quarters, ACB's CBD segment generated just US$2.7 million in sales. This lack of revenue growth is a surprise, as Reliva's products are sold in 23,000 stores in North America.

Aurora Cannabis is also losing market share in a high-growth segment and the total addressable market for CBD is valued at $19.6 billion in the U.S.

Another major reason for concern for Aurora investors is the company's weak balance sheet metrics. ACB ended the December quarter with $565 million in cash. However, it also has close to $500 million in debt and convertible liabilities. The marijuana giant continues to raise equity capital, and, in the last six months, its outstanding shares have risen to 197.39 million, up from 77.39 million.

If it continues to post an EBITDA loss in the upcoming quarters, you should expect a further dilution in shareholder wealth.

The Foolish takeaway

Aurora Cannabis is valued at a price-to-forward-sales multiple of seven, which might not look too steep considering it's part of a growing industry. However, investing in this stock carries significant risks due to ACB's negative profit margins, falling market share, and weak financials.

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araghunath