Here’s Why I Haven’t Sold Aurora Cannabis (TSX:ACB) Stock

Description

Before I begin, I want to be clear: I do not think **Aurora Cannabis** (TSX:ACB)(NYSE:ACB) is a buy today. I’m going to dig into the company and look clearly at the company’s fundamentals and outlook. But deciding that it’s a buy and deciding it’s a sell are two very different things. While I won’t be increasing my stake, I’m not selling it either. Let me explain why.

The highs and lows

Aurora stock had a solid run before the cannabis crash in 2018. The company was touted as the largest producer of cannabis at the time and the cheapest. Management boasted of bringing the cost to cultivate cannabis down to below $1 per gram, all while others were $4 or more!

But the problem for Aurora was shareholder dilution. The company didn’t, and still doesn’t, have a partner to help funds its research, development, and growth. Instead, the company diluted shareholder funds to pay for its growth. It also remains a leader in the global medical marijuana market but less so in the recreational sector, even with 50% of gross sales coming from recreational cannabis. It also lacks the United States foothold so many others have attempted to edge in on with federal legalization a major possibility.

All of this has led Aurora to the fraction of where it once was. And it may get worse. While the company’s cost-saving methods are great today, this could soon change. The Canadian producer will soon have to battle against future production entrants from countries with cheap labour, such as Portugal, Denmark, and Uruguay. And with the U.S. as the largest potential cannabis market, Aurora is still no where in sight on the THC front. While its entrance in over 20 other countries will help drive a path to profitability, it will still certainly miss out.

Fundamental performance

So, that’s where Aurora has been, and here’s where it is today. The company’s most recently quarterly performance has left much to be desired. Revenue was up 23% year over year, but also reported a net loss of $302 million — almost triple what it was the quarter before. The company also failed to deliver on a a promised positive EBITDA by the end of the fiscal second quarter 2021. Analysts now don't see any cost-cutting or growth path that could deliver a near-term positive EBITDA.

Shares are still down by 34% in the last year, and the company currently has a price-to-sales ratio of eight, and price-to-book ratio of one, which is cheap but not valuable. It has $675 million in debt with profit still far off.

So, why hold?

Here at the Fool, we recommend long-term holding. Aurora Cannabis stock is still a major player in the cannabis industry. While again, I do not think that buying it right now is the right move, I don't think selling for a loss is the right move either. At this point, the company can produce a massive amount of cannabis around the world. While it won't be expanding any time soon, it will continue to produce cannabis at a cheap cost and work towards profitability.

When profitability does come, shares will increase. Even now, analysts estimate that the price target is triple where it is today. While there is still too much risk to have me increase my stake, I'll simply wait it out until I can get out at the right time. While this stock isn't likely to be a long-term hold forever, it could simply be a wait and see for investors currently holding the stock.

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