Could Aurora Cannabis Stock Make a Comeback in 2021?

Description

Aurora Cannabis (TSX:ACB)(NYSE:ACB) has been one of the worst-performing marijuana stocks on the TSX. It has lost 36% in market value in the last year and is down 94% from all-time highs. The Canadian pot giant has been impacted by multiple issues that include negative profit margins, high inventory levels, and massive shareholder dilution.

However, its focus on cost efficiencies and the prospect of cannabis legalization south of the border make Aurora Cannabis an attractive bet for contrarian investors. Let's see if ACB stock can rebound in the second half of this year and recover a part of its losses.

Decline in sales

In the fiscal third quarter of 2021 ended in June; Aurora Cannabis reported a sales decline of 25% year over year. Net cannabis revenue slumped 21% primarily due to a 53% decline in its consumer products vertical. This was offset by a 17% rise in medical marijuana products. Aurora Cannabis attributed the ongoing pandemic to its less-than-impressive sales in the March quarter.

Its adjusted EBITDA loss narrowed to $24 million in Q3 compared to its year-ago loss of $49.6 million. However, analysts estimated the company's EBITDA loss at $10 million. During its fiscal Q3 of 2020 earnings call, Aurora Cannabis said it expected to post a positive EBITDA by the end of the second quarter of fiscal 2021.

If you account for depreciation as well as inventory writedowns, the company's gross loss stands at $72.4 million. In the prior-year quarter, it reported a gross profit of $23 million. Further, Aurora Cannabis burned over $85 million worth of cash in Q3 and increased liquidity by $172 million via an equity raise.

The company ended Q3 with a cash balance of $525 million and a debt balance of $481 million, which means further shareholder dilution is in the cards. In fact, ACB is planning to raise US$300 million according to a recent prospectus filing.

Aurora Cannabis's valuation and more

Aurora Cannabis confirmed it will now shift focus to high-margin products in the medical marijuana space, which will improve its profit margins. This might seem a logical move given the company is rapidly losing market share in Canada's recreational cannabis space.

Aurora Cannabis has managed to increase sales from $55 million in fiscal 2018 to $278 million in fiscal 2020. However, analysts expect sales to decline by 7.6% to $257.7 million in 2021, and increase by 27% to $327 million in 2022. Comparatively, its loss per share is forecast to narrow from $33.94 in 2020 to $0.76 in 2022.

Aurora Cannabis is reducing its losses by cost savings and not by economies of scale. It has shut down operations in a couple of facilities to meet lower-than-expected demand, which has contributed to its stock decline.

ACB stock is valued at a market cap of $2.06 billion, which suggests its trading at a forward price-to-2022 sales multiple of 6.13, which is steep for a loss-making entity grappling with tepid growth. Bay Street analysts have an average price target of $8.4 for ACB stock, which is almost 20% below its current trading price, making it a high-risk bet right now.

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