Aurora (TSX:ACB) Stock: A Stunning Fall From Grace

Description

The cannabis frenzy was highest months before the Canadian government legalized marijuana, with regulated and restricted access, on October 17, 2018. **Canopy Growth** was the most popular name, although **Aurora Cannabis** (TSX:ACB)(NYSE:ACB) was the top-of-mind choice of investors. It promises to be the largest cannabis producer.

From $49.20 on August 14, 2018, the share price of Aurora climbed 185% to $140.16 on October 15, 2018. Profit takers took advantage and earned considerable windfall from the weed stock. However, it was a letdown from there, causing the cannabis powerhouse to fall from grace.

A class-action suit was also filed recently in the U.S. claiming that current and former Aurora Cannabis executives artificially inflated the Q4 fiscal 2019 adjusted EBITDA. As of September 17, 2021, the beleaguered growth stock trades at less than $10. At $6.63 per share, the year-to-date loss is 20.22%.

Shareholder dilution

Aurora Cannabis expanded its production capacity and global footprint in 2019, but not in a way that pleases investors. The company issues common shares to fund its strategic acquisitions. In less than five years, it issued about $1 billion shares to generate capital. Management's share-based dilution strategy isn't good for the stock.

Based on analysts' evaluations, Aurora's share-based dilution caused the stock's underperformance. The impact was costly as investors lost 56.45% in 2019. Some market observers said it was a growth-at-any-cost strategy. They said it would be an arduous task to earn $100 million to generate $0.10 in earnings per share (EPS).

A significant drop in revenues

On October 2, 2020, Aurora sank deeper to $3.83 per share after reporting more than $3.3 billion in losses in the fiscal year 2020. Similarly, it had three CEO changes within a year. Miguel Martin is the third CEO following the departures of Michael Singer and Terry Booth.

Martin announced a business transformation plan when he took over Aurora. He believes the rationalization of the cost structure would maximize operations and strengthen the company's footing.

Unfortunately, the latest quarterly results aren't enough to restore investors' confidence. Aurora reported a 25% drop in revenue in Q3 fiscal 2021 compared to Q3 fiscal 2020. Its net income also increased 24.12% to $165.7 million year over year. Aurora's consumer cannabis net revenue also sank 53% year-over-year to $18 million.

Notably, the adjusted EBITDA loss was 51.61% lower versus the same period last year. Martin cited the challenges in the Canadian adult-use segment and the continuing impact of the COVID-19 pandemic for the declines. So far, the only bright spot is medical cannabis. Aurora will likely focus more on Aurora's medical cannabis business.

The $1.32 billion cannabis producer boasts the strongest performance in the domestic medical market, given the 17% jump in revenue. For international medical cannabis, sales revenue soared 134% year over year. Meanwhile, Aurora's priority is to cut costs by around $60 million to $80 million annually over the next 18 months.

Struggle to grow

While Aurora Cannabis is reaping success internationally and increasing annual cost savings, investors are turned off by the struggle to grow. Market analysts don't expect Aurora Cannabis to report better financials in Q4 fiscal 2021. It might be hard-pressed even to achieve positive EBITDA in the next three years. Given the way stock's performance, investors should avoid this weed stock or incur losses.

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