



## Should You Buy Aurora Cannabis (TSX:ACB) After its Fourth-Quarter Performance?

### Description

**Aurora Cannabis** ([TSX:ACB](#))(NYSE:ACB) [reported](#) its fourth-quarter performance on Monday after the market closed. Its revenue came in at \$54.83 million, falling short of analysts' expectations of \$56.28 million. However, its adjusted EBITDA losses and cash burn declined during the quarter. Besides, the company announced a clear pathway to move toward adjusted EBITDA profitability.

So, Aurora Cannabis's initiatives to reach profitability and an improvement in its operating efficiency appear to have increased investors' confidence, driving its stock price higher. Yesterday, its stock price rose to a high of \$8.86 before closing at \$8.64, representing a growth of 6.9% from its previous closing price. So, should investors buy Aurora Cannabis at these levels? First, let's look at its fourth-quarter performance in detail.

### Fourth-quarter performance

During the quarter, Aurora Cannabis's overall revenue declined by 19.9% on a year-over-year basis amid weak recreational cannabis sales, which fell 45%. The company has blamed lower consumer demand amid the pandemic-infused restrictions for the sales decline. Meanwhile, its medical sales grew 9% year over year due to the solid performance from its international segment, which reported 88% growth.

Aurora Cannabis's gross margin improved from 49% in the previous year's quarter to 54%. The shift in its sales mix toward higher-margin medical cannabis drove the company's gross margin. During the quarter, the company's average net selling price stood at \$5.11 per gram of dried cannabis compared to \$3.60 in the previous year's quarter. The company's adjusted EBITDA losses also fell from \$33.3 million to \$19.3 million. The improvement in gross margin and lower SG&A and R&D expenses drove its adjusted EBITDA.

Further, Aurora Cannabis's usage of cash for operating and capital expenses declined year over year. It closed the quarter with a cash balance of around \$440.9 million. The company also has access to

US\$1 billion of capital under its shelf prospectus. So, its financial position looks healthy. Meanwhile, let's look at its growth prospects.

## Aurora Cannabis's growth prospects

Aurora Cannabis's medical segment posted a gross margin of over 60% during the quarter, more than double its recreational cannabis business. So, the company is allocating more resources to the segment to drive growth. Aurora Cannabis is a market leader in the Canadian medical space, with a market share of around 20%.

Meanwhile, the Canadian medical cannabis market is highly fragmented, with the top five companies acquiring below 40% of the market share. So, the company is investing in innovation, broadening product offerings, and leveraging technology to drive growth.

Moving to the international market, BDS Analytics has estimated the medical cannabis market in Germany, Poland, the United Kingdom, France, and Israel to reach \$3.2 billion by 2025. So, Aurora Cannabis focuses on expanding its presence in Germany, France, and Israel.

With an intent to improve its recreational cannabis business, the company is focusing on launching premium and higher-THC content products. Further, it is also working on monetizing its intellectual property in genetics and biosynthesis, which could boost its financials in the coming quarters.

With Aurora Cannabis yet to become profitable, the company's management has taken several initiatives to deliver cash savings of \$60-\$80 million. Of these savings, the company expects \$30-\$40 million savings achieved by the end of the next fiscal year and the rest by the end of the second quarter of fiscal 2023. So, the company's outlook looks healthy.

## Bottom line

Despite yesterday's surge in its stock price, Aurora Cannabis is still trading at over a 60% discount from its February highs. The steep correction has dragged its forward price-to-sales multiple down to 5.8, cheaper than most peers.

So, given the near-term weakness in the cannabis sector, I believe investors with over three years of investment horizon can [accumulate the stock to earn superior returns](#).

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