Marijuana Stocks: Has the Bubble Officially Burst?

Description

If you were following what was happening in the stock market leading up to the Canadian government legalizing marijuana, you might remember how the cannabis frenzy was during that time. **Aurora Cannabis** (TSX:ACB)(NYSE:ACB) was one of the top choices in investors' minds who wanted to capitalize on the booming and burgeoning legal cannabis industry in 2018.

From trading for just below $50 per share in mid-August 2018 to trading for just over $140 per share by mid-October 2018, Aurora Cannabis stock's share prices appreciated by a massive 185% in a matter of months. Those who'd invested early managed to rake in significant profits from the stock's increasing valuation. If Canadians were looking for growth stocks that could provide them with stellar shareholder returns, it was in the cannabis sector.

Unfortunately, the investors who chose to stick with cannabis stocks were in for a disappointment when Aurora Cannabis and its peers fell from grace. Aurora Cannabis recently released its Q4 2021 performance, which might give a clearer perspective on the prospect of investing in the company.

Today, I will discuss the cannabis stock in detail to help you determine whether the marijuana stock is worth investing in today.

Quarterly earnings report

The company's third-quarter earnings report for fiscal 2021 saw a 25% drop in revenue from the same period last year, and its adjusted EBITDA was over 50% lower than in Q3 for fiscal 2020. The Q4 earnings report for fiscal 2021 has been slightly different.

Overall revenue did decline by almost 20% year over year due to a slowdown in recreational cannabis sales that declined by 45%. The company's management attributed lower consumer demand and pandemic-fueled restrictions to the decline in recreational marijuana sales. However, medical cannabis sales rose by 9% year over year, largely due to the company's international segment.

Aurora Cannabis's international segment saw an 88% growth, and the company's gross profit margin was 54% — a significant improvement from 49% in the same quarter last year. The higher margin for its medical cannabis sales combined with a shift in its sales to drive the growth. The company's losses from its adjusted EBITDA also declined from $33.3 million to $19.3 million.

The company's year-over-year capital expenses and its use of cash for operational expenses were also lower, allowing it to close the quarter with a $440.9 million cash balance. Overall, the company's financial position seems much better than in the previous quarter.

Foolish takeaway

The company's medical marijuana segment reported a gross margin of more than 60% in Q4 2021, more than twofold of its gross margin from recreational cannabis sales. With around a fifth of the share in the Canadian medical cannabis space, Aurora Cannabis is a dominating force in the niche.

The company is also launching premium and high-THC content products to improve its recreational cannabis business. At writing, the stock is trading for $8.77 per share. The stock is trading for a 63.40% discount from its February 2021 high. Its share price can decline further due to near-term weakness in the industry.

However, the company's growth prospects may offer the hope of superior returns for investors with higher risk tolerance and a long investment horizon.

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