No Respite for Aurora Cannabis Investors

Description

While broader markets recovered in 2021, some top TSX stocks kept digging deeper. One of them has been top pot stock **Aurora Cannabis** (TSX:ACB)(NYSE:ACB). ACB stock lost 40% in the last 12 months, while peer cannabis stocks lost 22%. On the other hand, the **TSX Index** rose a decent 20% in the same period.

ACB stock trades at 52-week lows

Aurora Cannabis investors must be hoping for a massive recovery after such underperformance for months. During the cannabis legalization rally in Canada, ACB stock delivered more than 2,000% returns between 2016 and 2018. However, it was quick to lose sheen too. The stock lost 96% of its market value in the last three years from its all-time highs.

An increasing acceptance of cannabis globally could open up more growth opportunities for the sector. Also, cannabis derivatives like vapes and beverages offer attractive prospects in the future. However, excess capacity and rampant black markets have been crucial factors that have plagued the industry.

Aurora Cannabis mainly operates through two segments; medical and consumer cannabis. While the medical segment has seen decent growth recently, the consumer vertical has seen a consistent decline in revenues. Overall, the company has seen falling total revenues in three of the last four quarters.

It reported total revenues of $60.1 million for the quarter ended September 30, 2021. This indicated a decline of 11% relative to the same quarter in 2020. While Aurora was among the first movers in the medical cannabis space, it is fast losing market share in the fast-growing recreational space.

Earnings growth and balance sheet strength

Importantly, Aurora Cannabis management claimed to report positive EBITDA for the last several quarters but failed to deliver. Now, it expects to turn EBITDA positive in the first half of fiscal 2023.

Aurora had $375 million in cash and short-term investments at the end of September 30, 2021. The liquidity position is certainly better off than last year. However, the company issued new stock to raise capital. It has done this several times in the past.

Aurora had a total of 10.75 million shares outstanding in 2016, while the number has swelled to 198.2 million shares at the end of September 2021. Note that every time a company issues new shares, its existing shareholders' ownership gets reduced, making each share less valuable.

Peer comparison

In comparison, Canada's pot giant **Tilray** (TSX:TLRY)(NASDAQ:TLRY) looks way more attractive at the moment. It has seen aggressive growth since completing its acquisition with Aphria early this year. It has a notable market share in Canada, the US, and some European markets. TLRY stock has almost halved since completing the merger in May 2021. However, scale and relatively consistent profitability make it stand tall among peers.

While both Tilray and Aurora stocks have been weak of late, the prior looks more appealing. Relative to Aurora Cannabis, Tilray offers better growth prospects with its diversified revenue base and product portfolio. On the other hand, the opportunity cost with Aurora could be huge given its highly volatile stock and distant long-term profitability.

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Date
2025/08/16
Date Created
2021/12/15
Author
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