ACB Stock: Here's Why Aurora Cannabis Remains a High-Risk Bet for 2022

Description

Canadian marijuana stocks continue to underperform the broader indices by a wide margin in 2021. Several pot stocks were trading near record highs soon after Canada legalized cannabis for recreational use at the federal level. However, lower-than-expected demand, a string of overvalued acquisitions, competition from a thriving black market, and mounting losses, among several other factors have decimated companies that are part of this sector.

At the time of writing, shares of **Aurora Cannabis** (TSX:ACB)(NYSE:ACB) are currently trading 96% below record highs, burning significant investor wealth in the process. But despite the massive pullback , ACB stock remains a high-risk bet for long-term investors.

Tepid quarterly results for Aurora Cannabis

In the fiscal first quarter of fiscal 2022 that ended in September, Aurora Cannabis reported sales of $60.1 million, which was a decline of 11% year over year. However, revenue was 10% higher than the quarter ended in June.

Aurora attributed the sequential growth to its focus on high-margin products in the medical marijuana space. In fact, Aurora's medical marijuana revenue was up 17% year over year at $41 million.

The company reported an EBITDA loss of $12.1 million in Q1, narrower than a loss of $19.7 million in the year-ago period. The management team expects to report a positive EBITDA in the first half of fiscal 2023. However, investors should note that Aurora Cannabis had also forecast to report a positive EBITDA by fiscal Q2 of 2021.

In the last 12-month period, Aurora Cannabis reported sales of $237.77 million, which were lower than revenue of $245 million in fiscal 2021 and $278.9 million in fiscal 2020. The cannabis heavyweight is wrestling with falling sales in a market that is growing by double digits.

Aurora Cannabis had earlier emphasized that it will focus on the premium products and the high-margin medical marijuana vertical to reduce its cash burn. So, it should return to revenue growth going forward.

What’s next for ACB stock investors?

In the last three fiscal years, Aurora Cannabis has reported cumulative operating losses of over a billion dollars. This high cash-burn rate has led to massive shareholder dilution, as the company raised equity capital multiple times in recent years.

Aurora Cannabis ended Q1 with a cash balance of $375.27 million, which means it would have to raise additional capital if profit margins remain negative going forward. On the flip side, Aurora Cannabis is the largest player by sales in Canada’s medical marijuana vertical and is poised to dominate the market going forward.

Analysts tracking ACB stock expect sales to rise by 3.1% year over year to $253 million in fiscal 2022 and by 18.2% to $299 million in fiscal 2023. Comparatively, its adjusted loss per share is forecast to narrow from $0.67 per share in 2022 to $0.52 per share in 2023.

Given its outstanding share count of 198.2 million, the cumulative losses in the next two years will total $235 million. Aurora Cannabis also ended Q1 with more than $400 million in debt, which is far from ideal.

ACB stock is valued at a forward price-to-sales multiple of six times, which is very high for a loss-making company grappling with inconsistent revenue growth. Analysts tracking the stock have a 12-month average price target of $7.69 for Aurora Cannabis stock, which is lower than its current share price of $7.72.

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