



Should You Buy Aurora Cannabis (TSX:ACB) Stock in 2022?

Description

Shares of marijuana giant **Aurora Cannabis** ([TSX:ACB](#))(NYSE:ACB) were trading near record highs after Canada legalized pot for recreational use back in late 2018. However, ACB stock is now down 97% from all-time highs, valuing it at [a market cap](#) of \$1.2 billion.

Aurora Cannabis stock has grossly underperformed the markets in the last three years due to a variety of reasons that include cannibalization from the illegal market, lower-than-expected demand, widening losses, rising inventory levels, overvalued acquisitions, and billion-dollar writedowns.

Let's see if Aurora Cannabis can stage a comeback this year, or if it will continue to trail the equity market going forward.

The bull case for Aurora Cannabis

Aurora Cannabis has reported operating losses of more than \$1 billion in the last three fiscal years. However, over the last few quarters, the company has focused on cost savings to improve the bottom line and reduce cash-burn rates.

In the [second quarter of fiscal](#) 2022 (ended in December), Aurora Cannabis reported an adjusted EBITDA loss of \$9 million, which was narrower than its loss of \$11.5 million in the previous quarter. Aurora Cannabis emphasized it will report a positive adjusted EBITDA in the first half of fiscal 2023.

In addition to reducing costs, Aurora Cannabis has narrowed its product portfolio in the recreational cannabis vertical to focus on higher-margin medical marijuana products. In fiscal Q2 of 2022, Aurora Cannabis reported medical marijuana sales of \$45.7 million, accounting for 75% of total revenue. In the year-ago period, these sales accounted for 57% of total revenue.

Aurora Cannabis increased sales from \$55 million in fiscal 2018 to \$248 million in fiscal 2019. However, in 2021, its top line stood at \$245.2 million and is forecast to decline to \$236 million in fiscal 2022. After two consecutive years of falling sales, analysts expect revenue to increase by 14% to \$270 million in fiscal 2023. Comparatively, its adjusted loss per share might compress from \$4.1 in fiscal

2021 to \$0.8 in fiscal 2023.

The bear case for ACB stock

Investors remain worried about declining sales and net losses associated with Aurora Cannabis. In the December quarter, its total sales were down 10% year over year at \$60 million. While the company enjoyed an early-mover advantage in the medical marijuana market, the entry of new players has resulted in tepid growth.

Further, its consumer cannabis sales plunged by 48% in fiscal Q2 to \$14 million. Aurora Cannabis has lost market share rapidly in the recreational cannabis segment, as it did not expand its portfolio of derivatives-based products in the last three years. However, during its recent earnings call, the company stated it plans to introduce a wide range of products targeting the recreational segment.

While Aurora claimed it will reach profitability within the next four years, investors will remain wary of the management's lofty promises. But it has consistently failed to deliver on multiple profitability targets in the past.

Aurora Cannabis continues to dilute shareholder wealth by raising equity capital and offset its cash burn. If this trend is replicated in 2022, it's quite possible for ACB stock to trade significantly lower by the end of this year.

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