Why Aurora Cannabis (TSX:ACB) Stock Is Sinking This Week

Description

Growth-seeking investors have had a terrible time watching their investments decline on the stock market. Those bullish on long-term prospects for their investments might stick around and hope for the best. Others have cut their losses to invest their money elsewhere. Unfortunately for investors who have faith in cannabis stocks, the situation does not appear to be getting better soon.

The announcement of cannabis legalization for recreational use was a massive game changer for Canadian cannabis producers like **Aurora Cannabis** (TSX:ACB)(NASDAQ:ACB). The entire cannabis industry has been struck with significant losses in recent weeks. However, Aurora Cannabis leads the downward charge, hitting new all-time lows for the first time since it went public.

What is happening?

Investor sentiment has a massive role to play in the price movements for publicly traded companies on stock markets, and Aurora Cannabis has not given its investors many reasons to be very happy with its performance. The company recently reported a new record of losses in its quarterly earnings.

Aurora Cannabis also sold off facilities crucial to its operations as a cost-cutting measure, making things even worse for the beleaguered cannabis giant. Aurora Cannabis recently agreed to purchase 61.2 million units on a bought deal basis for gross proceeds amounting to US$150 million.

It is a type of financing that makes the investment bank liable to purchase the entire stock offer of the issuing company. The capital-raising tactic is a sound move financially for the company, because it eliminates the risk for Aurora Cannabis. Unfortunately, the move also puts its shareholders at significant risk of dilution.

Aurora Cannabis had 168 million total outstanding shares by the end of 2020. As of March 2022, that number has spiked to 215 million, making its shares worth far less for existing investors. The company's revenues have been declining for several years, but its outstanding shares keep increasing.

The decision to resort to dilution to finance its operations comes as no surprise after posting a $1 billion loss in its recent quarter. Last year, the same quarter saw a net loss of just $160 million for the company.

Where is the cannabis industry going?

The financial struggles are not limited to Aurora Cannabis alone. The entire cannabis sector has faced issues due to a saturated market exhibiting slow growth. The black market makes matters worse by eating into their top lines. Many consumers still prefer buying from unregulated sources because of more affordable prices.

The industry-specific obstacles have combined with weakness in broader equity markets to weigh heavily on cannabis stocks. Growth stocks are not performing well, and interest rate hikes will make matters worse.

Foolish takeaway

Using cost-cutting measures to improve its chances of turning a profit soon has made Aurora Cannabis a risky bet for its investors. The cannabis industry might see some improvements in the long run as better regulations come into place.

Unfortunately, it could still take several years for Aurora Cannabis and its peers to become profitable. It might be best to avoid allocating capital to buying Aurora Cannabis shares for a long time.

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