



ACB Stock: What's Behind Aurora Cannabis' Recent Surge?

Description

The broad market correction brings appealing opportunities for value-cautious investors. Some TSX stocks have corrected by more than 50% while markets, on average, have fallen by around 5% this year.

But not all massively corrected stocks offer value. Some names fall for a reason. **Aurora Cannabis** ([TSX:ACB](#))([NASDAQ:ACB](#)) stock is one of them. It has fallen 70% this year, terribly underperforming broader markets. However, despite the correction, ACB stock does not look attractive.

What's next for ACB stock?

ACB stock has shown big movement this week, gaining 20% in the last two trading sessions. The enthusiasm was largely due to its potential expansion in Europe. Besides, bottom-fishing could have also helped the stock trade higher.

Pot stocks saw an epic rally a few years back amidst the hopes of cannabis legalization in the US. Alongside US legalization efforts, Germany has plans to open up its market to these [cannabis](#) companies. Germany could be the second-biggest market for these players after the US, which will likely support a higher topline for pot companies.

Aurora Cannabis is among the few companies that have production facilities in Germany. However, it is still too soon and could take years to see a visible impact on its financials.

Cannabis stocks continue to lag broader markets

There has been no respite for Aurora Cannabis investors. The company continues to struggle on the financial front with recurring losses and an unstable topline. Even if the management is confident of turning EBITDA positive soon, management has been guiding that for the last several quarters. EBITDA provides a gauge of Aurora's overall financial performance by focusing on earnings before interest, taxes, depreciation and amortization are accounted for.

Revenues have been on a slow decline for two years, falling 8.6% in Q3 2022 over the year-ago quarter to \$50 million. Earnings plummeted 530% for a net loss of over \$1 billion. The company has closed several facilities and laid off some workers in various cost-cutting initiatives this year.

Besides its operational issues, Aurora investors face the rather worrying concern of equity dilution. By consistently increasing total outstanding shares in ACB, Aurora has made existing shareholders' stakes less valuable.

Aurora Cannabis is a global leader in medical cannabis and earns industry-leading gross margins in the segment. Additionally, it operates in the adult recreational segment, which has seen declining revenue growth of late.

The Foolish takeaway

To turn things around, Aurora must radically increase its revenues. It will also help the company achieve its long-pending target of turning EBITDA positive. Legalization in Germany could drive its revenue growth to some extent.

There seem to be a few positives and many challenges for Aurora Cannabis, which will likely continue to make its path more barbed. It's not going to be easygoing for ACB investors either, considering the uncertainties and its volatile stock. Even though the stock has come down substantially from its record highs, Aurora Cannabis seems like a high-risk bet.

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