



13th September 2019

AURORA CANNABIS

| Consumer, Brands & Retail
| Cannabis

NEUTRAL vs. BUY

Fair Value CAD7 vs. CAD16 (-10%)
Share price CAD7.75
EPS 3Y Cagr NM

Q4 and outlook disappoints

Oversupply will lead to price pressure

Aurora's revenues for Q4 came in at CAD99m which missed its own guidance of CAD100m to CAD107m and was well below consensus expectations of CAD108m. What was more is that CAD20m were wholesale revenues. The company put on a brave face explaining investors that they carried a higher gross margin but it does mean that they could not sell more of their own brands (domestically or internationally). And indeed for the full year, Aurora produced 57,442 kg of cannabis (and equivalent) while it sold only 36,628 kg (including over 6,000 kg on the wholesale market). We believe that overproduction will remain at Aurora as also further capacity is coming on stream and demand for products will depend on the development of physical retail stores and the speed at which new products can be brought to the market from 18 December onwards. Unfortunately, other LP's are equally getting into overproduction and that could lead to much faster than earlier anticipated, pressure on wholesale prices and potentially on retail prices. Only a couple of weeks ago we found the first discount offers in the Nova stores (partially owned by Aurora): Edison Cassablanca 3.5g for CAD27.95 vs its regular price of CAD33.95 (an 18% discount!). In the quarter Aurora's average Canadian recreational price was down 6% quarter on quarter to CAD5.14 from CAD5.48.

Lower FY2020 guidance leads to downgrade

For the coming two quarters (and despite the production ramp-up), the company is looking for flattish revenue figures which given that the number of physical retail stores in Quebec and Ontario are increasing, Alberta has increased the number of licences, the Ontario stores can now start selling 7 days per week and an expected inventory build ahead of the legal sales by mid-December from cannabis vapes, beverages, edibles, concentrates and topicals. Our conclusion is that Aurora must, prudently, be expecting that it will not be able to retain its current Canadian market share (we believe it to be between 25% and 30%) as other producers are getting less supply constraint. We have incorporated the company's prudent outlook in our new figures and look for CAD608m revenues for FY2020 and for CAD1,086m in FY2021. It also looks now unlikely that the company will be able to show positive adjusted EBITDA in Q4 of CY2019 and we are now expecting an adjusted EBITDA loss of CAD50m in FY2020 and a positive one in FY2021 to the tune of CAD108m. With these new forecasts and an increase in our RRE to 15% from 10% we lower the fair value of the company to CAD7.0 per share and lower recommendation to Neutral.

Market Data

Bloomberg / Reuters	ACB CN/ACB.TO
Market Cap.	CAD7,908m
E.V.	CAD8,191m
Free Float	0%
Avg. Daily volume (6m)	6,978
12m high / low	CAD15.1 / CAD6.2
Ytd Perf.	14.3%

CADM	06/19	06/20e	06/21e	06/22e
Sales	247.9	608.0	1,086	1,536
% Change			78.7%	41.4%
EBITDA	-151.0	-50.0	108.0	315.9
% Change		66.9%	NS	
EBIT	-314.2	-241.5	-108.9	81.6
% Change		23.2%	54.9%	NS
Net Income	-232.2	-68.9	50.5	202.4
% Change		70.3%	NS	
ROE	-0.05	-0.02	0.01	0.04

	06/19	06/20e	06/21e	06/22e
EV/Sales	33.0x	13.9x	7.8x	5.5x
EV/EBITDA	NS	NS	78.6x	26.7x
EV/EBIT	NS	NS	NS	103.5x
EPS	-0.23	-0.07	0.05	0.20
% change		70.9%	NS	
P/E	NM	NM	NS	39.7x
Div Yield	NM	NM	NM	NM

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NEUTRAL vs. BUY

Fair Value	CAD7 vs. CAD16 (-10%)
Share price	CAD7.75
Market Cap.	CAD7,908m
EPS 3Y CAGR	NM

Fiscal year end 30/06	2017	2018	2019e	2020e	2021e
Financial Summary					
EPS (CAD)	0.15	-0.29	-0.19	-0.10	0.03
Restated EPS (CAD)	-0.14	-0.23	-0.07	0.05	0.20
% change	-322.0%	-61.7%	-70.9%	-	300.5%
FCF (CAD)	-0.42	-0.59	-0.27	-0.06	0.08
Net dividend (CAD)	0.00	0.00	0.00	0.00	0.00
Average yearly Price	13.77	10.19	7.75	7.75	7.75
Avg. Number of shares, diluted (m)	471	1,016	1,037	1,037	1,037
Historical Enterprise value (CADm)	6,085	10,425	8,348	8,406	8,368
Valuation (x)					
EV/Sales	110.2x	42.0x	14.22x	8.01x	5.64x
EV/EBITDA	-72.7x	-41.6x	NM	80.61x	27.43x
EV/EBIT	-120.3x	-48.6x	NM	NM	NS
P/E	-97.4x	-44.6x	NM	NS	39.70x
FCF yield (%)	-307.9%	-575.7%	NM	NM	1.06%
Net dividend yield (%)	0.0%	0.0%	NM	NM	NM
Profit & Loss Account (EURm)					
Revenues	55	248	608	1,086	1,536
Change (%)	205.5%	349.2%	145.2%	78.7%	41.4%
Adjusted EBITDA	-38	-151	-50	108	316
EBIT	-96	-314	-241	-109	82
Change (%)	-755.7%	-228.1%	-23.2%	-54.9%	-
Financial results	-11	-37	-33	-33	-34
Pre-Tax profits	-106	-352	-275	-142	47
Exceptionals	184	23	0	0	0
Tax	-8	30	73	38	-13
Minority interests	3	-7	0	0	0
Net profit	72	-305	-202	-104	35
Restated net profit	-67	-232	-69	51	202
Change (%)	-612.9%	-248.5%	-70.3%	-	300.5%
Cash Flow Statement (EURm)					
Operating cash flows	-38	-144	-75	83	291
Change in working capital	-25	-38	-32	-76	-125
Capex, net	-137	-414	-170	-70	-81
Free Cash flow	-200	-596	-277	-63	85
Financial investments, net	-401	102	-89	0	0
Dividends	0	0	0	0	0
Capital increase	216	59	175	0	0
Other	-19	-11	40	5	-47
Change in net debt	-404	-445	-152	-58	38
Net debt (+)/cash (-)	54	283	521	579	541
Balance Sheet (EURm)					
Tangible fixed assets	246	766	952	960	974
Intangibles assets	985	3,861	3,961	3,961	3,961
Cash & equivalents	149	362	44	44	82
current assets	66	302	395	554	737
Other assets	464	212	212	212	212
Total assets	1,911	5,503	5,564	5,731	5,966
L & ST Debt	203	645	565	623	623
Provisions	72	285	285	285	285
Others liabilities	73	182	243	326	384
Minority interests	5	4	4	4	4
Shareholders' funds	1,559	4,386	4,467	4,492	4,670
Total Liabilities	1911	5503	5565	5731	5966
Ratios					
Gross margin	64.5%	54.6%	60.0%	65.0%	65.0%
EBITDA margin	-69.7%	-60.9%	-8.2%	9.9%	20.6%
Net debt/EBITDA (x)	-64.3%	-112.7%	-284.6%	-1241.0%	364.5%
Operating margin	-91.6%	-86.5%	-17.8%	4.2%	16.2%
Tax rate	-10.1%	-9.4%	26.5%	26.5%	26.5%
Net margin	-120.7%	-93.7%	-11.3%	4.7%	13.2%
ROE	-4.3%	-5.3%	-1.5%	1.1%	4.3%
ROCE	-10.6%	-9.5%	-4.7%	-2.0%	1.5%
Gearing	3%	6%	12%	13%	12%
FCF/EBIT	208.7%	189.6%	114.9%	58.0%	104.4%
Dividend payout	0.0%	0.0%	0.0%	0.0%	0.0%

Source: Company Data; Bryan, Garnier & Co ests.

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