

Cannabis: High flying industry, or stone dead?

3-year charts for Marijuana Stock Index

Global Cannabis Stock Index



(Source: <https://www.newcannabisventures.com/cannabis-stock-index/>)

North American Marijuana Stock Index



United States Marijuana Stock Index



Canada Marijuana Index



(Source: <https://marijuanaindex.com/>)

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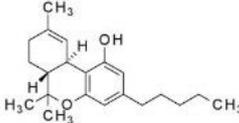
With Cannabis now legal in a growing number of jurisdictions & CBD oil being the new health phenomenon and readily available at high street stores, we conduct a deeper dive into the industry and the numbers behind the market buzz.

The cannabis sector is an increasingly complex and varied industry. Its primary plants and products can be divided into two groups: marijuana (and THC) in one category, and hemp (and CBD) in the other. Cannabidiol (CBD) is one of the 113 compounds found in cannabis, and it is the second largest cannabis compound, usually making up approximately 40% of the plant’s extract. Tetrahydrocannabivarin (THC) is the principal component, which makes up roughly 54% of the extract.

The Cannabis plant has several negative associations with recreational drug use and the consumption of marijuana. In this space, plants grown, cultivated and used contain THC, the psychoactive ingredient that gets drug users high. THC is the reason for cannabis' ongoing popularity as a recreational drug worth billions of dollars in both legal and illegal markets.

The other side of the market is centred around hemp. Hemp does not contain material levels of THC; rather it contains CBD, an active ingredient found in other cannabis plants. CBD is in part been behind the growth of medical marijuana, but alternative products that utilise the substance are increasingly popular in the health and wellness markets, where they can be bought without a prescription. Thus, some industry experts note that hemp may soon make up the larger part of the cannabis industry.

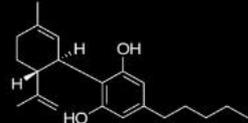
THC



Medical Benefits

- Psychoactive. Create the high! Euphoric
- Relieves pain and inflammation
- Causes anxiety for new users
- Create sense of relaxation and wellbeing
- Induces sleep
- Appetite stimulant

CBD



Medical Benefits

- Non-psychoactive
- Combats inflammation and pain
- Combats anxiety and depression
- Suppresses Seizure activity
- Combat neurodegenerative diseases
- Combat psychosis
- Combats tumors and cancer cells
- Appetite suppressant

(Source <https://www.monroeblvd.com/blogs/marijuana-effects/thc-and-cbd>)

What is CBD Oil?

The Cannabidiol is a popular natural remedy used for many common ailments. Better known as CBD, it is one of the 113 chemical compounds known as cannabinoids found in the cannabis or marijuana plant, Cannabis sativa. Tetrahydrocannabinol (THC) is the main psychoactive cannabinoid found in cannabis, and causes the sensation of getting “high” that is often associated with marijuana. However, unlike THC, CBD is not psychoactive. This quality makes CBD an appealing option for those who are looking for relief from pain and other symptoms without the mind-altering effects of marijuana or certain pharmaceutical drugs.

CBD oil is made by extracting CBD from the cannabis plant, then diluting it with a carrier oil like coconut or hemp seed oil. It is gaining momentum in the health and wellness world, with some scientific studies confirming it may help treat a variety of ailments like chronic pain and anxiety.

What are the benefits of CBD Oil?

Here are seven health benefits of CBD oil where some evidence suggests CBD can have a beneficial effect

1. **Can relieve pain** – The body produces endocannabinoids, which are neurotransmitters that bind to cannabinoid receptors in your nervous system. Studies have shown that CBD may help reduce chronic pain by impacting endocannabinoid receptor activity, reducing inflammation and interacting with neurotransmitters;
2. **Could reduce anxiety and depression** – CBD oil is thought to have less side effects for anxiety and depression than current pharmaceutical drugs;
3. **Can alleviate cancer-related symptoms** – CBD may help reduce symptoms related to cancer and side effects related to cancer treatment, like nausea, vomiting and pain;
4. **May reduce acne** – CBD oil may help treat acne due to its anti-inflammatory properties and ability to reduce sebum production;
5. **Might have neuroprotective properties** – One of the most studied uses for CBD is in treating neurological disorders like epilepsy and multiple sclerosis. Though research in this area is still relatively new, several studies have shown promising results;
6. **Could benefit heart health** – Recent research has linked CBD with several benefits for the heart and circulatory system, including the ability to lower high blood pressure; and
7. **Several other potential benefits** – Antipsychotic effects, substance abuse, anti-tumour effects, diabetes prevention.

(Source: <https://www.healthline.com/nutrition/cbd-oil-benefits>)

Market growth for CBD

As the cannabis market continues to grow, hemp and cannabidiol (CBD) are occupying an increasingly large share of the escalating industry. According to Hemp Business Journal, sales of hemp-based products in the United States reached \$820m last year, of which \$190m, or 23% of sales, consisted of CBD-derived products. Total sales of hemp-derived products are expected to exceed \$1bn this year. Some industry experts expect hemp products to soon exceed marijuana for their share of the cannabis industry. The same Hemp Business Journal article estimates that the hemp market will reach \$1.9bn in the United States by 2022, with \$646m of that coming from CBD and its derivatives, with the Brightfield report even more optimistic.

A wide variety of end-use product potential is helping hemp gain mainstream use and acceptance. This market includes supplements, personal care products, textiles, food and industrial applications, as well as CBD and the support services provided Sugarmade (OTCMKTS: SGMD) and other similar companies. The hemp market has grown 15% per year over the past 3 years. Unlike marijuana sales, this growth is not driven by the medical and recreational sectors. Instead, body products and supplements have been key factors.

The top five Global online retailers/brands are: Charlotte's Web Hemp, PlusCBD Oil, HempMeds, Elixinol and CannazALL.

Charlotte's Web Hemp (CWEB.CN) is the only listed company out of the top five online wholesale & retail sellers of CBD Oil: CW Hemp is the world's leading brand by market share in the production and distribution of innovative hemp-based wellness products. Through its vertically integrated business model, the Company strives to improve customers' lives and meet their demands for stringent product quality, efficacy and consistency. Charlotte's Web does not produce or sell medicinal or recreational marijuana or products derived therefrom.



- Market Cap – C\$1.345bn
- EBITDA margin – 34%
- EPS – C\$0.13
- PE Ratio – 107.97x
- Revenue – C\$40m

(Image source
<https://www.thecse.com/en/listings/life-sciences/charlottes-web-holdings-inc>)

The other four (CannazALL, HempMeds, PlusCBD Oil and Elixinol) are not listed companies but again produce standardised CBD Oil products. They are wholesalers and allow firms to be a reseller of their CBD oil without handling the cannabis plant. However, Hemp Meds is wholly owned by a listed company called **Medical Marijuana (MJNA.OTC)**.

Legality

There is a lot of debate about whether CBD is legal and in what form, but big steps have been made with it readily available on store shelves in most US states, Canada, the UK, Austria, Belgium, Denmark, the Netherlands, Romania, Spain, Italy and many other countries. The hemp market is expected to be strengthened by the 2018 Farm Bill currently making its way through the U.S. Senate. Legislation included in the act, supported by the Senate majority leader, would remove industrial hemp from the Controlled Substances Act, making it easier for farmers to grow hemp for CBD and other agricultural purposes.

Canada was the first G7 country to legalise cannabis in October this year, reflecting a gradual mood shift in several other countries (the law has also been loosened in countries such as in Uruguay, Spain and Portugal). This year, eight US states relaxed drug laws to allow marijuana to be legal for recreational use as well as medicinal. These are Maine, Massachusetts, Colorado, Washington, Oregon, California, Nevada and Alaska.

Cannabis-THC Market

Cannabis companies whose products contain significant quantities of THC are still dominating the market with market perception being that it will be legalised in more countries in the coming years. We have profiled six of the largest listed companies operating in the Cannabis industry. Five are Canadian and trade on the Toronto Stock Exchange and on U.S. exchanges or on the Over-The-Counter (OTC) market, while one is U.K.-based. For these almost household names in cannabis it would be a natural extension of its work to produce CBD oils, and most of them already do or are starting to:

Aphria Inc. (OTC: APHQF, TSX: APH.TO) C\$12.77. Market Cap: C\$3.2bn.

FY August 18

- EBITDA – (C\$23.9m)
- EPS – C\$0.19
- PE Ratio – 81.36x
- Revenue – C\$36.9m



Source: <https://www.yahoofinance.com>

Aphria Inc promotes itself as the low-cost cannabis producer as it uses mainly greenhouses to keep costs down on production. Aphria is engaged in both the medical and recreational cannabis markets. While the company has been selling medical cannabis since its launch, on its first-quarter earnings call, executives said that the company was investing heavily in adult recreational marijuana.

Aurora Cannabis Inc. (NYSE: ACB, TSX: ACB.TO) \$5.91. Market Cap: \$5.7bn

FY June 18

- EBITDA – (\$93.4m)
- EPS – \$0.16
- PE Ratio – 70.44x
- Revenue – C\$55.2m



Source: <https://www.yahoofinance.com>

Aurora is not just selling its own CBD-rich health and wellness products - it's also working to raise the public profile of the cannabis industry. It has partnered with Elevate, the annual citywide Toronto festival, to create tracks discussing cannabis and health issues. These events will encourage discussion about the health potential of CBD and marijuana, as both sides of the industry continue to gain in size and public recognition.

Cronos Group Inc. (NSDQ: CRON, TSX: CRON) C\$8.99. Market Cap: C\$1.61bn.

FY Dec 17

- EBITDA – n/a
- EPS – C\$0.01
- PE Ratio – 789.55x
- Revenue – C\$4.1m



Source: <https://www.yahoofinance.com>

Cronos is aiming to extract some of the rarer cannabinoids from the marijuana plant using a fermentation process. The theory says that marijuana plants are valuable because they produce compounds called cannabinoids, the most common and abundant of which are tetrahydrocannabinol, or THC, and cannabidiol, or CBD. THC is the chemical that produces the psychoactive effect associated with cannabis, while CBD is believed to have health benefits while not producing a buzz.

Canopy Growth Corp. (NYSE: CGC, TSX: WEED) C\$43.48. Market Cap: C\$10bn.

FY Mar 18

- EBITDA – (C\$158.7m)
- EPS – (C\$0.71)
- PE Ratio – n/a
- Revenue – C\$77.95m



Source: <https://www.yahoofinance.com>

Canopy Growth Corporation is a diversified, multi-brand cannabis and hemp company, offering distinct brands and curated cannabis products with varieties in dried, oil and soft-gel capsule forms. In January 2018, Canopy Growth completed its acquisition of Green Hemp Industries Ltd. a whole-plant hemp harvester, aiming to position itself as a low-cost leader. Canopy's field operations located near Hagen, Saskatchewan, are ready to scale from 600 acres in 2018 to 2,500 acres in 2019. Canopy Growth has become a powerhouse within the industry and is breaking new ground for cannabis companies, having completed the first legal transfer of cannabis from Canada to the United States using a DEA-issued permit.

GW Pharmaceuticals PLC. (NSDQ: GWPH) \$133.69. Market Cap: \$4.32bn.

FY Sep 18

- EBITDA – (\$180.24)
- EPS – (\$8.92)
- PE Ratio – n/a
- Revenue – \$10.4m



Source: <https://www.yahoofinance.com>

Cambridge, U.K.-based GW Pharmaceuticals has been working to develop and sell cannabinoid medications for the last 20 years. The company created the first cannabis-based prescription medicine to gain FDA approval and continues to innovate through its research and product divisions. The drug is expected to come on the market in November 2018. Like Tilray, the company is committed to growth, having recently announced new shares to raise \$300m of finance. GW Pharma extracts a purified substance with a high concentration of CBD and mixes it with sesame oil to make a syrup.

Tilray Inc. (NSDQ: TLRY) \$90.68. Market Cap: \$8.45bn.

FY Dec 17

- EBITDA – (\$5.64m)
- EPS – n/a
- PE Ratio – n/a
- Revenue – \$20.5m



Source: <https://www.yahoofinance.com>

When Tilray Inc. became the first cannabis company to go public on a major U.S. exchange this year, it marked an important turning point for the sector. Like every Canadian business, Tilray has not yet brought in revenue or profit from recreational sales, but it is planning to move into that market with a range of brands and partnership agreements. Now, Tilray's sales are entirely composed of sales of medical cannabis either in Canada or overseas, where it has a substantial and growing footprint.

All of these companies produce thousands of kilograms of cannabis each quarter, which is critical, as there are dozens of smaller businesses both public and private that have yet to bring products to market. Some of those are expected to die, and some are expected to thrive. However, there are some listed companies that specialise only in Hemp-CBD which, as stated earlier in the report, is seen to be the fastest growing area within Cannabis sales.

Current listed Hemp-CBD Companies

Isodiol International Inc. (CSE: ISOL) C\$1.85. Market Cap: C\$461.89m

FY Mar 18

- EBITDA – (C\$22.2M)
- EPS – (C\$1.27)
- PE Ratio – n/a
- Revenue – C\$19.1m



Canada-based company specialising in the production of pharmaceutical and consumer products. The Company has been focused primarily on CBD oils and nutraceuticals that are derived from hemp. Isodiol's current production facility in the Yunnan province of China has production capacity of 2,000kg CBD oil/year.

Hempco Food and Fiber Inc. (TSXV: HEMP) C\$1.38. Market Cap: C\$81.0m

FY Aug 18

- EBITDA – (C\$2.48m)
- EPS – (C\$0.09)
- PE Ratio – n/a
- Revenue – C\$6.55m



Hempco currently has a 56,000 sq. ft. processing facility in Nisku, Alberta, producing hemp-based foods. Its products are also distributed in 1,200 retailers in the UK and sold on Amazon, reaching 30 other countries.

Tinley Beverage Company Inc. (CSE: TNY) C\$0.81. Market Cap: C\$56.3m

FY Dec 17

- EBITDA – n/a
- EPS – C\$-0.03
- PE Ratio – n/a
- Revenue – C\$31,100



Tinley Beverage Co. is an American producer of cannabinoid beverages. Through its Hemplify brand, Tinley sells CBD infused alcohol and tonics for casual consumer use.

Medical Marijuana Inc. (OTC: MJNA) US\$0.10. Market Cap US\$160.7m

FY Dec 31

- EBITDA – (\$4.53m)
- EPS – (\$0.09)
- PE Ratio – n/a
- Revenue – \$26.5m



This company produces CBD infused oils and consumables, also offers support services for the medical marijuana industry, such as management expertise and shipping arrangements.

Future Growth

As more and more states and countries legalise cannabis – fuelled in part by greater acceptance in public – there is reason to believe that the marijuana sector’s prospects for continued growth look good. In fact, a report published in April 2018 by Grand View Research suggests a CAGR in the US legal marijuana market of 24.9% through to 2025. Some say the US marijuana industry alone could be worth as much as \$75bn by 2030 according to research published by Cowen. With forecasts like these, it is no wonder that savvy traders have been flocking to this market, eager to capitalise on the latest trending marijuana stocks.

Predictions for a possible UK cannabis market are bullish, with Prohibition Partners suggesting it could be worth €18.5bn in the next 10 years, while Euromonitor predicts the global market could be worth \$150bn if their predicted regulatory changes materialise.

With **Sativa Investments (NEX: SATI)**, the UK’s first medicinal cannabis investment vehicle, having reached a market cap of £66m with only circa £3m of funds raised to date it appears that CBD risks becoming another bubble, similar to blockchain, to hit the UK. However, the UK allowing medical cannabis to be sold on prescription from the 1 November 2018, could potentially open the door for more companies to grow or invest in cannabis.

There are some potential pitfalls that could adversely affect the sector and pose added risk for those considering trading marijuana stocks. Although a steady stream of US states have legalised cannabis, the substance remains illegal at federal level with Donald Trump looking to impose stricter

enforcement of federal anti-marijuana regulations. There are also complications for how wealth would be divided between legal and non-legal countries for payments or dividends, as in the eyes of the law it could be seen that investors are enjoying the benefits of illegal activities.

Despite this being something of a new frontier for investors, **valuation multiples always serve as a useful reality check, and by any traditional metrics many of the companies mentioned in this report could be considered hugely expensive.** There is a lot of hype to live up to as investors search for the next stellar growth high margin sector. Canopy Growth for example can report a 97% gross margin, but if you dive deeper it's in part driven by the revaluation of existing inventory, and with a likely flood of new entrants one must ask how sustainable this is.

It is also important to remember that companies looking to list in the UK are likely to hit a stumbling block if they are involved in the recreational cannabis supply chain and therefore need to focus on medical marijuana or CBD oils. Similarly, investment vehicles like Sativa need to be careful that their underlying investments generate no proceeds from the sale of recreational cannabis.

Sativa is no longer the only game in town, with a handful of UK small caps now investing in the sector or at least considering opportunities. These include **Afriag (NEX: AFRI) Market Cap: £1.9m**, **Ananda (NEX: ANA) Market Cap: £1.6m**, **High Growth Capital Plc (NEX: HASH) Market Cap: £34.1m** and **Spinnaker Opportunities Plc (LON: SOP) Market Cap: £1.43m**.

We should remember that Cannabis remains a controversial topic. Perhaps a tenuous inclusion in this report is **Bioventix (LSE: BVXP) Market Cap: £155m** whose portfolio of diagnostic antibodies includes one that can help detect THC in the blood stream. One must question the future of the pre-employment drug screening market and media reports do suggest the relaxing of corporate drug policies in the US.

Summary

The cannabis industry has seen huge growth over the past decade, and now it is going through big changes. Commercial CBD and hemp, until recently existing in the shadow of medical cannabis and to a lesser extent recreational marijuana, could soon be the leading products in a growing global market. In terms of listed players, the Hemp-CBD market and Cannabis-THC market is already populated by companies with market caps into the billions, but with financial performance yet to catch up. With all the regulations surrounding production and the steps to make sure THC is not produced, it may be difficult for smaller CBD firms to compete or comply. However, with market interest in cannabis and CBD mounting the funding could be there for a credible new entrant to make a name for itself.

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