

Aurora Cannabis Inc.: Is a Hemp Investment a Strategic Fit?

Description

Aurora Cannabis Inc. (TSXV:ACB) has just announced another possible acquisition, and this time the vicious and highly aggressive marijuana underdog is snatching a 19.9% stake in one of the world's largest industrial hemp producers, **Hempco Food and Fiber Inc.** (TSXV:HEMP), and could potentially increase its stake to 50.1% of the target on a fully diluted basis.

While the investing public has come to know Aurora as a pure marijuana play with the zeal, financial stamina, and a great potential to significantly challenge market leaders **Canopy Growth Corp.** ([TSX:WEED](#)) and **Aphria Inc.** (TSX:APH), news that the company is acquiring a food supplement and hemp fibre producer could be potentially disturbing.

One might question if there any strategic fit to this new acquisition.

My quick answer would be a big YES.

How could this be so?

Although Hempco is focused on a market and client profile that is different from the one that Aurora is currently targeting, all of its products are based on a plant that is in the same genetic family as the one the whole marijuana industry is being built on: Cannabis Sativa L.

The minor differences between the cannabis plant that Aurora is growing in its greenhouse facilities and the hemp plant that Hempco contracts to farmers is in the chemical properties and proportions of some two critical compounds, namely Cannabidiol (CBD) and Tetrahydrocannabinol (THC).

While Aurora's cannabis varieties and strains are very high in THC, the chemical compound that is the culprit for causing client intoxication and related feelings, hemp is very low on THC but has a higher proportion of CBD, a chemical compound that is said to have significant health benefits and healing properties.

Currently, local industrial hemp farmers are not allowed, by regulations, to harvest the leaves, flowers, and buds from the bulk hemp crop as it is still a prohibited substance. They can only harvest the seed for food production and stems for fibre extraction.

With the potential future recreational marijuana legalization, it is likely that hemp producers will be allowed to harvest the whole crop and be able to sell the precious leaf and flower to cannabis oil manufactures.

Hempco has a large hectareage under contract hemp production, and the precious hemp leaf and flowers from the cheaply grown bulk crop, which are going to waste today, could be harvested and be a critical, cheap ingredient in Aurora's oil production labs.

By the way, Aurora is in a strategic tech advancement and research partnership with **Radient Technologies Inc.**

They could produce a high-quality medical cannabis CBD oil from a cheaper and large volume hemp production.

The high-CBD, low-THC cannabis oil from hemp is a desirable medicine, both for the therapeutic benefits of CBD and the low presence of the intoxicating THC, which minimizes patient psycho-activity.

An investment in Hempco is therefore a strategic expansion and also a speculative play.

Conclusion

Aurora intends to be, and has been marketing itself as, a low-cost marijuana producer since its inception. A lower-cost supply of hemp crop harvests from the Hempco's contracted farmers could be what Aurora needs to outgrow its rivals in the very near future.

Furthermore, the investment brings about some diversification benefits Aurora as Hempco is a fast-growing consumer packaged food, fiber, and nutraceuticals manufacturer with a growing presence in local, United States, United Kingdom, European, and the vibrant Korean consumer markets among other international market territories.

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