



Aurora Cannabis Inc. Is Making a Push into Hemp: Is it a Good Idea?

Description

Aurora Cannabis Inc. (TSXV:ACB) today is one of the pre-eminent marijuana producers listed on the TSX Venture Exchange with a market capitalization just shy of \$750 million, making it the fourth-largest marijuana stock behind only **GW Pharmaceuticals PLC- ADR**, **Canopy Growth Corp.**, and **Aphria Inc.**

Aurora Cannabis boasts Canada's first purpose-built marijuana grow facility nestled in the heart of Alberta near the Rocky Mountains. The company currently owns 55,000 square feet of production space in its state-of-the-art facility, making it the second-largest approved producer in Canada behind only Canopy Growth.

Among the company's competitive advantages is the geographic location of its production facilities. The company has access to some of the world's freshest water, rolling off the Rocky Mountains.

In addition, it benefits from Alberta's corporate tax rates, which are among the lowest in the country along with below-market power rates and provincial agricultural and farming credits.

Partially owing to the aforementioned factors, the company claims to be the lowest-cost producer per unit (measured in grams). However, keep in mind that Aurora Cannabis posted a net loss of \$16 million on sales of \$13 million over the past 12 months, while competitor Aphria managed a profit of \$1.7 million on sales of \$15 million over that same period.

Regardless of whether or not Aurora Cannabis is indeed the lowest-cost producer, the company is growing, and growing fast.

When the company reported Q3 results on May 15, sales had jumped to \$5.2 million for the quarter compared to just \$0.2 million for the year-ago period; meanwhile, sales for Q3 were up an impressive 33.3% sequentially versus Q2.

The Hempco acquisition

The company is using this momentum to make strategic acquisitions that it hopes will benefit

shareholders long term.

This includes the recent acquisition of a 19.9% stake in **Hempco Food and Fiber Inc.** (TSXV:HEMP) for \$3.2 million. Along with the deal, Aurora Cannabis gets a call option on the company with the right to increase its stake to 50.1%, which would give Aurora Cannabis a majority or controlling ownership stake.

Like Aurora Cannabis, Hempco is currently enjoying outsized growth at the moment. Sales at Hempco were up a whopping 136% for the first six months of the current fiscal year compared to the year-ago period.

Hempco is a market leader in production of the hemp plant, which has applications in food, fibres, and nutraceuticals.

Hemp has long been espoused for its industrial and environmental benefits, despite being prohibited from production in the United States since the 1950s.

Today, hemp is used as a food source in protein powders and is touted for its nutritional benefits via hemp seeds and hemp oils.

What's more, hemp can be used as an alternative to traditional textile and paper products.

Proponents of the hemp plant, and there are many, claim that according to the U.S. Dept. of Agriculture, one acre of hemp can produce four times more paper than one acre of trees.

When it comes to hemp as an alternative to cotton in the production of clothing, the pro-hemp camp claims that hemp fibre is 10 times stronger than cotton and requires less water to grow, making it more environmentally sustainable.

Is it a good idea?

While the benefits of hemp have long been touted by those opposing conventional industrial production methods, it remains to be seen if hemp will prove to be economically viable on a mass scale.

Those seeking an investment in Aurora Cannabis for its future stake in the hemp market should invest with caution at the risk the hemp story turns out to be mostly smoke and mirrors.

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