Investors Need to Consider the Medical Marijuana Industry Regardless of Interest Rates

Description

Last week, the increase in the overnight rate put forth by the Bank of Canada dominated the news. Although there are a lot of positives that have come out of this decision, there are also still many negatives that will be felt down the road.

For investors looking for an opportunity to invest in an industry that will be little affected by the changes in interest rates, the medical marijuana industry may be it.

Although investors have traditionally viewed the technology industry as the go-to industry during periods of rising interest rates, it is important to realize that companies that are the main pillars of the industry have started to take on more debt as the businesses have become more sustainable amid technological changes.

Given this, the medical marijuana industry, which is in its infancy stages, may just be an investor's best bet.

Beginning with Canada's largest competitor by market capitalization, **Canopy Growth Corp** (TSX:WEED), which trades at slightly less than $8 per share, carries only $8 million dollars of long-term debt. As of March 31 of this year, there is more than $100 million in cash on the balance sheet.

Investors need not worry. If anything, the company has a substantial amount of cash in the bank and may just be receiving a return for the money sitting in short-term investments or a savings account. The full $100 million would not all be sitting in a checking account.

Next on the list is **Aurora Cannabis Inc.** (TSXV:ACB), which at $2.36 per share carries a market capitalization of more than $850 million. The company is currently carrying close to $18 million in debt with cash and cash equivalents of almost $115 million. Clearly, the solvency of this company is not a concern at this point.

The third major medical marijuana company, which became public only very recently, is **MedReleaf Corp.** (TSX:LEAF). In spite of having only $6 million in debt obligations, it may still be an investor's best bet.

The company has only $12 million in cash on the balance sheet and is the only competitor that is cash flow positive. When investors consider the cash flow statement, the total cash flows from operations for the years ended March 31, 2017, was positive $12.1 million and positive $1.4 million for the previous year.

Given the rapid growth of the medical marijuana industry, which is slated to become the “marijuana industry” in less than one year, investors may have found an expanding business and a place to hide should rates continue in the upward direction.

Although it may be a little too early to decide if these companies fit into the defensive or the cyclical categories, investors can rest assured that in either case, these companies will only be impacted in a very small way if interest rates continue to climb.

CATEGORY

1. Investing

TICKERS GLOBAL

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2. TSX:WEED (Canopy Growth)

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