

A New Cannabis IPO Could Serve as a Barometer for a Volatile Market

Description

The **S&P/TSX Composite Index** shed 82 points on March 27. The index has now dropped 6.1% in 2018 thus far. The **Horizons Marijuana Life Sciences Index ETF**, which seeks to replicate the performance of the North American Marijuana Index, fell 3.47% on March 27. The ETF has plunged 7.5% in 2018 as the cannabis market has faced its choppiest conditions since the debut of the fund.

The medical cannabis grower Green Organic Dutchman Holdings Ltd. is set to launch its initial public offering within days. As of this writing on the evening of March 27, it is unclear exactly when that will occur. Reports indicate that the company successfully raised \$100 million in its IPO. Green Organic Dutchman will price its shares at \$3.65 at its debut. The company reportedly intends to use the proceeds to complete its facilities in Hamilton, Ontario, and Salaberry-de-Valleyfield, Quebec.

The debut of Green Organic Dutchman should provide an interesting case study in the midst of volatility in the cannabis market. Top Canadian producers experienced incredible returns from the late summer of 2017 to early 2018. [Recreational legalization is less than six months away](#), but the soaring asset prices have apparently inspired caution.

Canopy Growth Corp. ([TSX:WEED](#)) boasts the largest market cap of any cannabis producer in Canada. Indeed, Canopy Growth stock has climbed 12% in 2018, but shares dropped 2.55% on March 27. The company is reportedly exploring a [U.S. listing](#) that could occur as early as the second quarter of 2018. This would also provide a crucial test for the market, as a flood of new volume would impact its stock price.

Canopy Growth appears to be the best prepared of any other Canadian producer ahead of legalization. In addition to its production capacity, which boasts over 665,000 square feet, it has stocked the largest inventory in the sector. This will be a huge factor, as demand is expected to put a strain on provinces.

Aphria Inc. ([TSX:APH](#)) fell 2.16% on March 27. Shares of Aphria have plunged 32.2% in 2018 thus far, and the company has become embroiled in controversy over one of its recent acquisitions. Six of Aphria's directors and its chief financial officer failed to disclose that they held 900,000 shares of **Nuuvera Inc.** for \$1 each when Aphria acquired the company for an \$826 million cash-and-stock deal. On paper, the deal more than quadrupled the \$900,000 investment for Aphria executives.

There was no requirement to disclose in this case, and Aphria has thus opened itself up to public criticism. Nuuvera has been rebranded to Aphria International and will focus on opportunities in countries with regulated cannabis markets.

How should investors respond going forward?

It is possible that the cannabis market has one more run in it before legalization, but the period in which the focus will be on earnings in a regulated industry is fast approaching.

CATEGORY

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1. TSX:WEED (Canopy Growth)

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