

Could This Marijuana Company Be Acquired at a High Premium?

Description

The cannabis industry has been dominated by recent merger and acquisition (M&A) activity. In 2018, the industry has seen the three largest takeovers in its history take place. The largest of which, **Aurora Cannabis Inc.'s** ([TSX:ACB](#)) \$3.2 billion deal for **MedReleaf Corp.** (TSX:LEAF), which took place just last week.

What is attractive about all the M&A activity are the large premiums being paid.

This has investors scurrying about trying to find the next logical takeover target. But investors, beware! You don't want to buy in to a company simply because of rumoured takeovers. Not all rumours result in offers, and you can end up holding the bag on an underperformer.

You want to look for a quality company that will be successful, even if rumours of a takeover don't pan out — a company like **Hydrothecary Corp.** (TSXV:THCX).

A little background

Hydrothecary is a mid-size regional pot stock with a market capitalization just north of \$900 million. It has 22 products over four product lines, including the industry's first and Canada's only peppermint cannabis oil sublingual spray. The company is a long-standing player Quebec's medical marijuana industry.

It was the first to receive its Quebec licence back in 2014 and remains the only company licensed in the cultivation, production, and sale of medical marijuana. The company is also the only licensed producer in Canada that is headquartered in Quebec.

Industry leader

The company is a well-trusted player in the industry. It is renowned for its award-winning, innovative, easy-to-use, and discreet products. As one of Canada's longest-standing pot companies, it has streamlined operations to become one of Canada's lowest-cost producers.

Hydrothecary has reduced its cost per gram from \$1.78 in 2017 to \$0.97 as of end of second quarter in 2018. That is almost a 50% reduction in costs, and it is well positioned to reach profitability.

The company has no debt and plenty of cash on hand to fund expansion. It expects to grow annual production to 25,000 kgs by the end of July and to 108,000 kgs by the end of December.

Landmark deal

In April, the company signed a landmark deal with the Sociétés des alcools du Quebec (SAQ), the provincial retailer that will oversee the province's recreational cannabis sales. The agreement calls for Hydropothecary to supply 200,000 kgs of cannabis over the next five years.

Did you know that the deal is the largest forward supply contract in the history of the cannabis industry? It is a billion-dollar supply deal.

In the first year, the company expects to supply SAQ with approximately 20,000 kgs of cannabis flower and other oil products. Based on Quebec's projected recreational supply requirements, Hydropothecary expects to capture 35% of the market share in year one.

Uniquely positioned

Hydropothecary is one of the few pot stocks that actually has a competitive advantage. Its long-standing relationship with the province of Quebec has it uniquely positioned to benefit from the impending marijuana legalization. For the larger industry players looking to make inroads in Quebec, it is the most attractive takeover target.

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