

I'd Pay Very Close Attention to This if I Were a Marijuana Investor

Description

On June 6, **Aphria Inc.** (TSX:APH), Canada's third-largest medical marijuana company, announced that it plans to invest \$55 million to build a brand new, state-of-the-art extraction facility.

In announcing the move, the company spun it as a social governance initiative: "We're expanding our horizons in Leamington so that when our youth go away to school they've got something to come home to."

And while there may be some truth to the company's statement that the move is intended as a grassroots initiative to help provide skilled employment for local youth living near the company's Leamington headquarters, the multi-million-dollar investment is far more about exploiting the apparent opportunities in marijuana extraction than anything else.

The planned facility will be capable of processing over 200,000 kilograms of marijuana plant annually, with the first deliveries expected towards the end of the first quarter in 2019.

Through advanced extraction methods involving the use of butane, ethanol, and CO2, the company aims to produce "world-class cannabis concentrates" that can then be converted into a myriads of applications from powders, creams, patches, edibles, and even infused beverages.

While it hasn't received a tonne of attention in the mainstream press to date, those Fools fortunate to be blessed with shrewd memories may recall that **Constellation Brands, Inc.** ([NYSE:STZ](#)), one of the world's largest alcoholic beverage makers, specifically touted the potential it saw in infused beverages last fall when it announced it was making a \$245 million investment in **Canopy Growth Corp.** ([TSX:WEED](#))(NYSE:CGC).

As Aphria's chief financial officer Carl Merton said in announcing the company's latest investment, the investment in extraction facilities sets the company up for "the wave after [this one] that no one even knows about yet."

The proof is in the pudding...

Maybe the latest news shouldn't come as such a surprise to those who have been following the evolution of Canada's cannabis markets closely over the past few years.

As the market for product has matured, more sales for Canada's licensed medical producers (recreational marijuana is still not legally available for sale) are coming from the sale of derivative products like oils, edibles and creams — rather than simply sales of the traditional marijuana flower.

Not only do oils and other derivative or extract products tend to carry with them higher margins for producers like Aphria (a good thing), they also promote several health benefits with them as compared to smoking the traditional flower through a cigarette or pipe.

A look to the future

As the values of licensed marijuana producers have soared in recent years, it only becomes more difficult for investors [uncover the true “value”](#) that remains hidden in the market.

One avenue worth considering is, of course, the implications for companies like Aphria, Canopy Growth, **Cronos Group Inc.** ([TSX:CRON](#))([NASDAQ:CRON](#)) and others to [tap into the many international markets](#) that continue to open.

But many are already looking at that opportunity square on — meaning that the next leg of the marijuana rally may actually end up coming from an advanced understanding of which manufacturers are able to lead the industry through innovation, including Aphria’s latest initiative.

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