



Colombian Cannabis IPOs Follow in the Footsteps of the Oil Industry

Description

Cannabis cultivators are increasingly utilizing a model pioneered by upstream Canadian oil and gas explorers, allowing them to establish operations in superior cannabis cultivating jurisdictions outside Canada while taking advantage of improved access to capital in Canada. Canadian energy stocks acquired oil acreage in South American nations, most notably Colombia, then raised capital in Canada by listing on the TSX Venture Exchange. After their businesses matured and grew to have a market cap of over \$100 million, many then migrated to the main TSX bourse.

Growing appeal of launching IPOs on the TSX

The Toronto bourse is garnering significant interest from overseas firms seeking to publicly list and gain access to capital. That can be attributed to the lure of making an IPO on the TSX Venture Exchange, which, because of its low IPO costs, is an appealing bourse for companies seeking to list with an initial valuation of less than \$100 million. The speculative nature of companies listing on the TSXV is widely recognized and accepted, making it the ideal place for smaller technology, biotech, and cannabis businesses.

An example of this model at work is leading licensed Colombian cultivator **PharmaCielo** ([TSXV:PCLO](#)), headquartered in Toronto, which has its [core operations](#) located in the town of Rio Negro outside Colombia's second-largest city, Medellin. It went public in mid-January 2019, has lost 29% since its IPO, and has a market cap of \$645 million. That has created an opportunity for investors to acquire a quality, fully licensed cultivator, which is poised to take advantage of all the benefits offered by operating in Colombia.

PharmaCielo has acres of cannabis growing and is giving its business a jump-start by acquiring Australian Stock Exchange-listed **Creso Pharma** for around \$133 million. That company's Canadian cultivation and distribution operations means that it is positioned to benefit from the legalization of marijuana edibles and extracts on or before October 17, 2019.

Another example of a cannabis company using that approach is Latin America-focused **Khiron Life Sciences** ([TSXV:KHRN](#)), which has its head office in Toronto, core operations in Colombia, and other

facilities in Chile and Uruguay. Since its IPO in mid-May 2018, Khiron, which has a market cap of \$230 million, has soared by over 100%, beating many other larger established cultivators such as Canopy, which has returned only 42% over the period.

Surprisingly, despite such a strong return, it is only trading at around 78 times sales, which is lower than those substantially larger companies like **Canopy**, which is valued at roughly 80 times sales, even after its latest pullback.

In Colombia, Khiron has 1.9 million square feet of licensed production area and capacity to produce 100,000 kilograms of dried flower annually. The company owns and operates a good manufacturing practice (GMP) accredited analysis and extraction lab. What makes Khiron stand out in comparison to Canadian cultivators is that it boasts a cost of goods sold of \$0.35 per gram compared to the \$5.47 reported by Canopy for its fiscal fourth quarter and an estimated Canadian industry-wide \$4 per gram.

Colombia's favourable [climate conditions](#) combined with its long history of large-scale agribusiness and coffee cultivation makes it likely that Canopy and other major North American cultivators will look to relocate their core growing operations there. This could happen quite quickly for Canopy; has come under considerable pressure from 40% owner **Constellation Brands**, which was deeply disappointed by its recently released results and is looking to boost profitability.

The established nature of Khiron's operations, low costs, and quality infrastructure could see it become a takeover target for a larger industry player, particularly when it is considered that its market cap of \$230 million makes it relatively easy to digest.

Foolish takeaway

There will be a flurry of further IPOs in the cannabis space during the immediate future, as a wide range of companies seek to cash in on the burgeoning global market and benefit from the knowledge provided by market leaders like Canopy. There is also a reckoning looming, where major Canadian cultivators will push harder to reduce costs and bolster production to meet already growing demand while boosting profitability. They will do this by acquiring smaller players like Khiron that allow them to beef up important aspects of their operations.

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2. TSXV:PCLO (PharmaCielo Ltd.)

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