Time to Invest in This Colombia Cannabis Cultivator

Description

Latin American legal cannabis cultivator **Khiron Life Sciences** (TSXV:KHRN), which started trading on the **Toronto Venture Exchange** in May 2018**,** continues to ramp up its operations. It recently completed a $28 million bought deal equity financing, which bolstered its coffers and will allow it to continue expanding its operations.

While Khiron is an attractive investment, there is speculation that because of its assets, established Latin American operations and small market cap of $226 million, it could become a takeover target.

Has the marijuana hype come to an end?

The latest series of negative events weighing heavily on legal cannabis cultivators**,** including **Canopy Growth's** disastrous fiscal fourth-quarter 2019 results and Health Canada's finding that **CannTrust** breached regulatory requirements, have sparked considerable fears that the good times may be over for the industry.

While there will certainly be more issues ahead, the party appears to be far from over.

There is growing speculation that the U.S. federal government could legalize the medical use of cannabis by 2024 or sooner, while Illinois is on track to become the eleventh state south of the border to legalize recreational marijuana.

Canada is poised to legalize marijuana edibles on or before October 17, 2019, which analysts speculate could add another $2.7 billion to the value of annual sales domestically.

The high costs associated with cultivation in Canada because of less than desirable climatic conditions has triggered significant speculation that major cultivators such as Canopy will move growing operations to jurisdictions with superior climates and lower operating costs.

One such jurisdiction is Colombia, where a combination of superior climatic conditions will allow outdoor cultivation, clear regulation and low labour costs mean that cultivators can produce marijuana at significantly lower costs than Canada.

It has been estimated by analysts that it costs on average around $0.50 to produce a single gram of marijuana in Colombia compared to around $4 in Canada. Leading licensed Colombian cultivator **PharmaCielo** has claimed that its dry flower costs will be as low as $0.05 per gram.

Khiron has 1.9 million square feet of licensed cultivating area in Colombia, which can produce over 100,000 kilograms of dried cannabis flower annually. It stated that the marijuana it was producing had a cost of goods sold of $0.35 per gram, which is less than a tenth of the industry average in Canada.

The company also recently announced the completion of a 14,000 square foot GMP and ISO 17025 compliant extraction and analysis lab at its facilities in Ibague in Colombia, as well as commencing the construction of additional greenhouses to expand its production capacity.

Khiron has been steadily growing sales reporting that first-quarter 2019 revenue of $2.1 million was more than double quarter over quarter, although its net loss ballooned out to $8.7 million compared to $6.2 million for the prior quarter.

The increased loss can be attributed to a higher cost of sales**,** which were $1.7 million for the first quarter compared to $594,000 in the previous quarter and operating expenses of $8.4 million were 36% higher quarter over quarter. The sharp increase in the cost of sale and expenses can be attributed to increased production volumes and Khiron expanding its business.

Khiron established a significant distribution network in Latin America, with 119,000 clinical patients and 60 plus licensed aligned physicians and clinicians. It has a range of healthcare, wellness, cosmetic and pet care products that are being distributed in Colombia and has launched the Kuida brand of products in the U.S. through its relationship with Dixie.

Foolish takeaway

Khiron's growing production capacity and expanding distribution network combined with its low cost Colombian operations mean that sales and earnings will continue to grow at a rapid clip. The low costs associated with its marijuana production mean that it will be a highly profitable operator.

Many of the characteristics of its operations, including its significant production capacity in Colombia, makes it an attractive acquisition target for any of the major Canadian cultivators seeking to pivot their cultivating operations to a low-cost jurisdiction.

CATEGORY

1. Cannabis Stocks
2. Investing

TICKERS GLOBAL

1. TSXV:KHRN.H (Khiron Life Sciences)

PARTNER-FEEDS

1. Msn
2. Newscred
3. Sharewise
4. Yahoo CA

Category

1. Cannabis Stocks
2. Investing

Date
2025/08/21
Date Created
2019/07/10
Author
mattdsmith