



Latest Pot IPO to Beat Aurora Cannabis (TSX:ACB) to Productive Capacity

Description

There's a new cannabis IPO coming directly to the main TSX that will allow marijuana investors to further diversify their portfolios by geographical market exposure and legal jurisdiction. The new pot stock promises some fireworks, and it's already touting a potential productive capacity that crushes **Aurora Cannabis** ([TSX:ACB](#))(NYSE:ACB).

The new IPO

Israel-based Breath of Life International (BOL Pharma) (TSX:BOLP)(pending) is going public in a \$150 million initial public offering (IPO) set to close during the second week of July, and there's a 30-day over-allotment option that allows the book runners to increase the offering size to \$173 million.

The company estimates to have a productive capacity as high as 870,000 kilograms per annum grown in Israel and Portugal by the end of next year.

Aurora, one of the largest global producers, is expecting to have a productive capacity of 625,000 kilograms of dried pot by 2020, which was one of the industry's highest expected production run rates, potentially bigger than leading licensed producer (LP) **Canopy Growth's** estimated cultivation capacity.

The new listing promises to be one of the largest pot producers in the world!

Too ambitious a production target?

BOL Pharma claims to be the largest local producer and first supplier of medical cannabis to pharmacies in Israel, with a current owned annual productive capacity around 7,000 kilograms per annum that is expected to increase to 188,000 kilograms by end of this year and jump to 328,000 kilograms annually by end of next year.

The company plans to utilize third-party production capacity by contracting local farmers, has made arrangements in Portugal to acquire four million square feet of productive space, and management

estimates to have access to over 38 million square feet of marijuana cultivation space in both Israel and Portugal by next year.

The ambitious growth plan is only possible through such contracted capacity, but I would place more value on Aurora's mostly owned and joint venture-controlled capacity.

A significant global competitor

Israel [legalized cannabis exports](#) in January this year, but the legal framework isn't ironed out yet.

BOL Pharma's local market is still small. Management has set its targets on exporting to Europe, Latin America, and Australia and will thus have a direct clash with established Canadian and Dutch producers.

One critical competitive advantage for Israeli producers could be the significantly low potential production costs, with **Cronos Group** touting a potential cost per gram below \$0.50 for Cronos Israel. BOL incurred an adjusted cash cost per gram of merely US\$0.28 in 2016, but costs have since risen to US\$2.04 per gram for the first quarter of this year, as the company rapidly invests in operations.

Although Israeli producers are coming into the global market a bit late, some have had deep product experiences and spent years developing and researching on medical marijuana.

BOL Pharma actually recorded a first harvest in 2008, several years before most Canadian peers, and the company has an extensive collection of 230 different genetic varieties of cannabis, 13 of which are proprietary. It has been carrying out clinical trials, some of which are at advanced stages.

The firm's competitiveness in the global medical market could be significant, but Canadian giants are already in another league and will still rule.

Foolish bottom line

I find the new IPO's plan to sell product under white label contract manufacturing deals a noble strategy for accelerated revenue growth, and its Germany, United Kingdom, and Italy growth markets targets could afford it significant opportunities. However, Canadians are already doing something tangible in these territories.

Aurora's recent local production tender win in Germany helps it compete significantly in that market, its production assets in Portugal will feed cheaper inventory into Europe. The company's rapidly expanding, low-cost operations in Colombia threaten any other competitor in Latin America, and its Australian investee is already a significant operator in the Oceania territory.

The new global player will have to contend with established giants, and it may take time for it to find strong footing. Having a very high productive capacity is okay, but it's the access to markets that matters the most. The new IPO may struggle to compete with already established Canadian peers.

That said, investing in BOL is a good diversifying move into a new geographical value chain set up and a different regulatory jurisdiction, and the foreign company's distribution agreement with a local **TEVA** subsidiary could be leveraged into other territories.

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