



## Will the Latest Colombian Cannabis IPO Make Investors Rich?

### Description

Colombian biopharma company and cannabis cultivator **Avicanna** ([TSX:AVCN](#)) commenced trading on the **Toronto Stock Exchange** last Thursday.

Since then its stock has lost 3% and appears poised to fall further as the pessimism surrounding the outlook of the legal marijuana industry grows and Colombia specific anxieties weigh on domestic cultivators.

Colombian peers **PharmaCielo** and **Khiron** have also weakened, falling by 26% and 3%, respectively, over the last month.

The fears weighing on cannabis stocks were sparked by Canopy Growth's shock fiscal fourth-quarter 2019 results, **CannTrust's** regulatory breaches and growing concerns that the global market for legal marijuana may not be as large as industry pundits claim.

### Recent IPO

Avicanna, which is headquartered in Toronto, is focused on the development, commercialization and manufacturing of plant-derived cannabinoid products.

The bulk of Avicanna's research and development is being conducted at the **Johnson & Johnson** JLABS @ Toronto science incubation centre.

The company is in the process of conducting clinical trials for its therapeutic Pura Elements brand and the manufacture of the Pura Earth cosmetics brand.

It owns a majority 60% interest in subsidiary **Santa Marta Golden Hemp**, one of the few fully licensed and registered cultivators in Colombia, giving it an advantage over many of its peers in the equatorial nation.

That operation, along with Avicanna's other 70% owned subsidiary that is also located in Santa Marta,

gives it 250,000 square feet of licensed cultivating area. This is expected to expand to 410,000 square feet, giving the company 2,000 kilograms of productive capacity monthly on completion of its phase one project.

Avicanna requires \$550,000 and a further two months to complete the expansion of those cultivating facilities in Santa Marta.

It is anticipated that those outdoor cultivation facilities will have low production expenses because of the many advantages offered by Colombia, including steady sunlight as well as low cost energy, water and labour.

That gives Avicanna an advantage over many growers focused on indoor cultivation in Canada.

At the start of 2019, Colombian cultivator **PharmaCielo** claimed that its dry flower costs would be as low as \$0.05 per gram because of the advantages offered by cultivating in Colombia.

The low cost environment is further illustrated by analysts estimates that industry-wide Colombian legal cannabis cultivators could on average produce one gram of dried flower for \$0.50 compared to anywhere up to \$10 in Canada.

There are also estimates that it costs US\$0.35 to extract a gram of cannabinal in Colombia compared to around US\$3 in Canada.

This highlights the tremendous advantage that Avicanna has over its Canadian peers, thereby emphasizing the considerable potential profitability of its operations, especially if it can sidestep many of the [issues threatening](#) Colombia's cannabis boom.

Avicanna finished the first quarter 2019 with \$790,000 in debt and cash of \$483,000. Its net loss for the period also ballooned out to almost \$4 million, or around 20 times greater than a year earlier when it reported a \$196,000 net loss.

That loss can be attributed to a sharp increase in expenses due to the acquisition of its cultivating subsidiaries in Santa Marta and costs associated with preparing for its IPO.

## Foolish takeaway

Avicanna is still a development stage company and a speculative investment. It has yet to produce a commercial cannabis crop or make any sales, underscoring the considerable risks surrounding its operations.

While Avicanna is certainly positioned to benefit from the advantages of cultivating cannabis in Colombia, there is no guarantee that the company will succeed.

### CATEGORY

1. Cannabis Stocks
2. Investing

### TICKERS GLOBAL

1. TSX:AVCN (Avicanna Inc.)

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