



Forget Aurora Cannabis (TSX:ACB): Buy This Pure Extraction Company Instead!

Description

For Canada's second-largest licensed cannabis producer **Aurora Cannabis**, it hasn't exactly been such a "hot" summer.

In fact, shares in ACB are down close to -40% since the middle of March, outpacing the losses of the broader cannabis sector as represented by the **HORIZONS MARIJUANA ETF**, which is also down by about -30% over the same period.

However, in the case of pure cannabis extraction company **Medipharma Labs** (TSXV:LABS), it's actually been a much different story.

Stock in LABS is up an amazing 213% so far in 2019, and despite selling off some of those gains since May, Medipharma shares have begun to resume some of their momentum as of late, up more than 36% just in last week's trading alone.

But more than simply trying to chase the latest wave of momentum, there are several reasons why I happen to like Medipharma a lot as an investment these days.

The company is going after the high-growth, high-margin cannabis derivatives segment

Now, in case you're thinking that [cannabis derivatives](#) stand to represent complex and exotic financially engineered cannabis investments, it actually doesn't.

Cannabis derivatives refers to the incorporation of the traditional cannabis flower into new alternative applications for the drug such as vapes, oils, capsules, topical creams, and, possibly even some time [later this year, edibles](#).

What's really interesting about the cannabis derivatives market right now is that it's beginning to look more and more as though this is where the real growth and innovation in the cannabis industry is likeliest to come from.

Not only do derivative applications allow consumers a wider variety of avenues to choose from when dosing their cannabis, but they also tend to involve a more complex manufacturing process, which, in turn, represents more value (and potential for profits) through each stage of the supply chain.

It's a unique opportunity that not only stands to represent a "win" for cannabis shoppers but also retailers, wholesalers, and, of course, extraction companies like LABS.

A two-pronged business model

LABS is basically running two separate businesses.

One is set up as a wholesaling operation whereby licensed producers (LPs) sell their dried flower inventory to the company, which processes it and then sells it to other LPs to use in applications like vapes, oils, edibles, etc.

The second is essentially a tolling agreement whereby LPs pay LABS to process their dry product and returning it to them for a fee.

Certain derivatives products are outpacing the growth of the broader cannabis markets

In its most recent presentation to investors, the company presented research compiled by New Frontier Data and MJ Freeway Retail Data Webinar to suggest that growth in the cannabis concentrates market has grown by 100% over the past three years and now accounts for 33% of total industry sales.

Within that market, the research suggests that vape pens represent the largest potential for growth because of their faster onset times and ability to provide users with more accurate dosing.

Foolish bottom line

It's not been any real secret among industry insiders that as the market for cannabis investments continues to mature, investors will need to seek out less-conventional avenues to gain exposure to what's expected to be a 20% compound annual growth for the industry.

LABS certainly appears to represent one of those types of investments.

With the recent completion of its first shipment to the Australian market, the company has the momentum going in its favour.

And now with its share price beginning to follow suit, it could be a good time for investors to jump on board.

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