This Canada Pot Stock May Be a Good U.S. Acquisition

Description

All Canadian savers should understand how acquisition announcements influence stock market prices, especially the market values of high-growth pot stocks. If you aspire to retire one day, your stock portfolio should contain top acquisition candidates. Shareholders can earn high premiums by investing in shares of companies that are later acquired by major firms at a premium.

Stock prices of acquired companies typically rise on the announcement of a definitive agreement. The purchase price of an acquired firm usually includes a generous premium above and beyond the current share price. Canadian investors can become wealthy very quickly by learning how to spot prime acquisition targets.

Flower One Holdings is one Canada traded micro-cap pot stock with a market capitalization of over $130 million that may be a good acquisition target.

First, Flower One operates in an inexpensive geographic area to produce and distribute cannabis, making it an attractive asset for any Canadian cannabis stock. Second, this marijuana grower earns less revenue than what it would if a larger, more prominent marijuana producer like **Canopy Growth** or **Aurora Cannabis** owned it.

Geography determines the market value

Flower One is a U.S. operating pot stock headquartered in Canada. The company grows marijuana in a crucial U.S. state, Nevada. Nevada is one of the cheapest states in the U.S. to rent capital, like land and machinery, which means less overhead costs to produce cannabis. In a newly legal industry, cost competition is fierce, and Nevada has what it takes to give any corporation the cost advantage it needs to succeed.

Not only is Nevada one of the least-expensive states in the U.S. to do business, but it is also conveniently located in the southwest, next to multiple prime markets for recreational and medical marijuana. The states of California, Arizona, and Oregon all border Nevada. Further, Colorado is just one state over past Utah and above New Mexico. Washington State isn't too far either.

Nevada is the perfect state from which to set up a logistics hub in the Western United States. A large production and distribution facility in this state can easily reach multiple profitable cannabis markets in the U.S. without breaking the bank or hurting investor-sensitive profit margins.

Acquisitions should boost revenue and lower costs

The premium tacked on to the share price represents the added value that the asset brings to the purchaser. Ideally, the acquired company will be worth more to the buyer than to the seller. Moreover, the additional worth should be tangible value created from increased economies of scale or scope, which reduce costs, boost profit margins, and augment production efficiency.

Flower One's revenue for the past 12 months is a low US$3.8 million. Market prices on stocks with less income are cheaper than stocks with higher revenue and more robust sales portfolios. The stock price of Flower One is only $0.75 per share, making it a margin-boosting asset at a reasonable expense for larger, more established firms like Canopy Growth or Aurora Cannabis.

Capitalize on tax advantages in Canada

The Canada Revenue Agency gives Canadian citizens generous tax benefits to grow wealth in Tax-Free Savings Accounts (TFSAs) and Registered Retirement Savings Plans (RRSPs). Any returns you earn in a TFSA are untaxed, meaning that you don't have to worry about the government charging you for dividend interest or capital gains. Every Canadian should take advantage of these profitable options to turn their income into wealth.

Micro-cap pot stocks are perfect options for a TFSA or RRSP because they are cheap, and you don't have to risk as much money to buy shares of these stocks. The expected return of a micro-cap marijuana stock is higher because predicted losses are much lower than more expensive stocks like Canopy Growth.

Finding potential acquisition targets with lower potential losses and higher possible gains is the best strategy to boost the average expected value of your retirement portfolio.

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Date
2025/07/02
Date Created
2019/12/09
Author
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