



# 3 cannabis stocks you need to know about

01872 229 000

[www.atlanticmarkets.co.uk](http://www.atlanticmarkets.co.uk)



## A changing market

Cannabis legalisation is happening around the world. Let's make this clear though, this is not a green light for all the hippies out there to dust off their paraphernalia, get Sgt Pepper playing and take a trip down memory lane. The legalisation is coming in off the back of the medical applications more than anything else. Unless of course you live in Canada, where it is due to be fully legalised this month!

Over 30 countries have now legalised Cannabis for medical use.

Cannabis has long been known as a treatment to alleviate chronic pain, but is also used as a treatment for anxiety, cancer, epilepsy, anorexia, multiple sclerosis, glaucoma, nausea, muscle spasms and various mental health conditions such as schizophrenia – to name but a few.

The cannabis plant has a history of medicinal use dating back thousands of years across many cultures and the use of medical cannabis is becoming less controversial than previously considered.

## What's the difference between Cannabis & Marijuana?

Before we proceed it's worth pointing out that there's no real difference between cannabis and marijuana. Cannabis is the scientific name of the plant. Marijuana is a widely used nickname, thought to be of Mexican origin.

## Isn't Cannabis just used to get 'high'?

As you probably know, cannabis is also used as a recreational drug. There is a substance in cannabis called Tetrahydrocannabinol, or THC for short, and it's the THC that gets you 'high'.

However, cannabis also contains another compound called Cannabidiol or CBD.

CBD is a non-psychoactive component of cannabis. In other words, it won't get you high. CBD is thought to be responsible for many of its

therapeutic benefits. While research is still in its early stages, the medical industry is generally supportive of CBD because it has very few side effects.

## Marijuana market boom

With the changing perceptions of people and governments, as well as a more supportive regulatory landscape, the last few years has seen the emergence of a marijuana market boom. Companies specialising in cannabis products have grown rapidly and some have even become listed on stock markets. There's even a United States Marijuana Index, which tracks the performance of the sector. Over the last 12-month period the index has risen from 46 to 140 which is over a 200% gain, staggering in comparison to the broader markets. The Index tracks the leading cannabis stocks operating in the United States. The entry criteria states that constituents must have a business strategy focused on the cannabis or hemp industry.

## Recent figures and the current retail backdrop

While some fashion retailers shut down stores, there are strong signs that online shops are sweeping up customers and at a rapid rate. With the recent report of a 22% first-half profit rise Boohoo are leading the charge.

The news boosted the company's value to almost GBP2.4 billion. When put into context that's some 20 times the value of the 240-year-old store Debenhams. Boohoo, which was founded just 12 years ago has expanded quickly. Its approach of selling own brand clothing, shoes, and accessories largely focusing on 16 to 30-year-olds is certainly working.

The growth has been staggering and compounded when last year, it bought the PrettyLittleThing and Nasty Gal brands. Both of which are also online fashion shops. Boohoo is also making big gains in social media with 200% more followers in Instagram than this time last year. If that suggests it knows how to tap into a new generation of consumers, then it's another warning for the big names on the High Street.

## Momentum is building

Dozens of countries have relaxed their cannabis laws in recent years, not just legalising medical marijuana, but also decriminalizing recreational use. Argentina, Cambodia, Spain, the Netherlands, Colombia and Peru are examples of countries that no longer criminalize cannabis use. Some are going a step further and fully legalising the use of cannabis – whether it be for medical or recreational use.

Uruguay became the first country to do so back in 2013, but in June of this year, Canada became the second to fully legalise cannabis. This has been a key trigger in terms of the growth of cannabis companies given Canada's established capital markets and close ties to the USA. Other countries are taking notice. Germany relaxed its laws on medicinal marijuana prescriptions recently and has seen a substantial rise in prescriptions. Australia is also keen to cash in on this fast-growing market. In January the Federal government approved the licencing and cultivating of medicinal marijuana for local use and exports.

## Going global

Global spending on legal cannabis is expected to grow to \$32 billion in 2020 based on forecasts from BDS Analytics. This compares to just \$9.5 billion in 2017 – so that would see the market triple in size over the next 3 years.

Interestingly, the research predicts that the US will become the main driver of that growth.

As you probably know, the US is by far the most lucrative pharmaceuticals market in the world.

At present, it is in a state of flux regarding cannabis. You see, over half of the US states have voted in favour of legalising cannabis for medical use. However, it remains illegal under the Controlled Substances Act, which is a Federal law. It means that currently the US state and federal laws are contradictory – which is an issue that needs addressing.

Recently, President Trump has indicated he will likely support a bill that would keep the federal

government from interfering with individual states that have legalised cannabis.

If this goes ahead, as many are now expecting (given most states have already legalised cannabis) then it will indeed open the floodgates to the cannabis industry.

## UK finally catching up

The UK is trailing behind many countries in terms of medical marijuana legislation, but looks set to play catch up. Until recently, the only legal cannabis-based medicine was Sativex, which is prescribed to treat nausea from chemotherapy. Several advocacy groups have been pressing the government to reform its cannabis drug policies. In July 2018, the UK government finally approved the prescription of marijuana medicine.

Chronic pain is one area where the UK may benefit from medicinal marijuana. Alarmingly, a study released in 2016 found that almost half the adult population is living with some type of chronic pain - pain that lasts for more than three months and with an ageing population, it is likely that the increased occurrence of chronic pain will increase the need for pain management.

Doctors will be allowed to prescribe medicinal cannabis in the UK after the home secretary Sajid Javid was advised by the Advisory Council on the Misuse of Drugs that it has therapeutic benefits.

It follows several high-profile campaigns which captured widespread media attention and evoked deep public sympathy. Campaigners had questioned how severely epileptic children could be prevented from accessing medicines that significantly improved their condition while the UK remained the world's largest exporter of medicinal cannabis.

## Medicinal Marijuana to be available on prescription in UK

The UK's move to legalise medicinal cannabis products will bring the country's policy closer to that in countries such as Canada, Holland, Portugal and the majority of US states.

Medical cannabis can be administered through a variety of methods, including capsules, lozenges, tinctures, dermal patches, oral or dermal sprays, cannabis edibles, and vaporizing or smoking dried buds. Synthetic cannabinoids, such as dronabinol and nabilone, are available for prescription use in some countries. Countries that allow the medical use of whole-plant cannabis include Australia, Canada, Chile, Colombia, Germany, Greece, Israel, Italy, the Netherlands, Peru, Poland, Portugal, the United Kingdom, and Uruguay. In the United States, 31 states and the District of Columbia have legalized cannabis for medical purposes, beginning with California in 1996. Although cannabis remains prohibited for any use at the federal level, the Rohrabacher-Farr amendment was enacted in December 2014, limiting the ability of federal law to be enforced in states where medical cannabis has been legalized.

Medical cannabis was outlawed in 1971 amid fears that the substance served as a gateway to more dangerous drugs, with the US spearheading a return to the so-called 'reefer madness' era.

Now however, as emerging clinical data and volumes of anecdotal evidence amasses, suggesting cannabis can help patients living with epilepsy, MS, cancer and other serious conditions, modern medicine in the UK could be primed for serious change.

## Other applications

The trend has now moved out of the standard medicinal usage and with the recent announcement of cannabis infused drinks, it is looking like cannabis is going mainstream. Coca cola have already announced a cannabis infused drink and there are plenty of other companies getting into the mix. Several

companies are now riding the crest of this wave and the two that catch our eye is New Age Beverages, and Craft Brew Alliance. Recent reports have projected that twice as much money will be made in marijuana drinks compared to marijuana itself. This is the reason there is so much excitement in the sector at the moment.

## Three Stocks to watch in this space.

### TILRAY

Tilray is a Canadian pharmaceutical and cannabis company headquartered in Nanaimo, British Columbia. Founded in 2013, it was incorporated under the Seattle-based Privateer Holdings umbrella. They became the first medical cannabis producer in North America to be GMP certified in December 2016. Tilray is a global leader in medical cannabis research, cultivation, processing and distribution. They are the first GMP-certified medical cannabis producer to supply cannabis flower and extract products to tens of thousands of patients, physicians, pharmacies, hospitals, governments and researchers on five continents.

The share price has gained a lot of attention recently and have performed very strongly, we can attribute recent dramatic share price movement to several catalysts. Firstly, they are benefiting from a tailwind being created by the news that recreational cannabis will become legal for adults in Canada on October 17th. There is also a view that the company could enter a deal similar to the one that fellow Canadian cannabis producer Canopy Growth signed with alcoholic beverage giant Constellation Brands in mid-August, who have revealed it was making a \$3.8 billion equity investment into Canopy.

The company announced that it had received approval from the U.S. government to provide a cannabinoid drug to the University of California San Diego Center for Medicinal Cannabis Research to use in a clinical trial for Essential Tremor, giving an unofficial thumbs up to the quality of the company's cannabis. Moreover, it shows that cannabis could increasingly find uses in treating more medical conditions.

## Canopy Growth

On a relative basis, Canopy Growth is cash-rich. That means it can capture growth opportunities as well as withstand the ups and downs of the industry. Also, investors like cash-rich companies

Recent reports have projected that twice as much money will be made in marijuana drinks compared to marijuana itself. This is the reason there is so much excitement around these stocks, albeit again short-term trend driven. Canopy Growth's recent deal with Constellation Brands will provide Canopy Growth with a tremendous amount of expertise in the beverage space, though not at the same level that Coca-Cola could provide. Constellation Brands has a large distribution network. Canopy Growth should be able to take advantage of this distribution network as the legal landscape changes. While most investors are focused on Canada and the United States, there is a big international market for cannabis. Canopy Growth appears to be well-positioned.

At this stage we would add a note of caution, medical marijuana and even companies that could supply countries that have entirely legalised have a decent long-term outlook however marijuana beverage stocks are a riskier proposition, because in our opinion there are no sound fundamentals.

Their performance will be trend driven and could easily slip out of favour as quickly as they have slipped into favour. My mind takes me back to the trend that was around a few years back for Guarana infused drinks, they were big for a while!

## Sativa Investments Plc

Sativa Investments Plc is the UK's first medicinal cannabis Investment Vehicle.

Its shares were admitted to the NEX Exchange Growth Market in March of this year under the ticker SATI. The company aims to identify and invest in global opportunities related to medical cannabis – including production, pharmacology, testing and compliance, R&D commercialisation, and sales and marketing. Sativa has made two investments thus far –

both in Canadian companies.

The first investment is in Veratis, which runs test to find the optimum combinations of CBD/THC (the two key compounds in cannabis) to deal with specific ailments. The second investment is in Rapid Dose Therapeutics, which has developed proprietary drug delivery technologies – basically a way to deliver cannabis oils accurately, quickly and more effectively. They have also got involved in other investments in the sector including the 100% purchase of PhytoVista Laboratories, a UK-based laboratory that tests CBD oils and hemp products. There has also been a joint venture with Lexamed GmbH, forming a new German medicinal cannabis company named Sativa Germany GmbH.

Initially, Sativa is giving UK investors a way to access the global cannabis markets, but over the medium to longer term the plan is to take advantage of its first mover position in the UK.

For example, Sativa is looking to gain the rights to Rapid Dose's products in the UK and Europe.

The market opportunity in the UK could be massive. Canada's cannabis market is already worth billions. The UK has a population almost twice that of Canada.

With public opinion shifting and the UK government relaxing its stance, Sativa looks well placed to benefit.

Overall, we see Sativa as an early-stage but exciting play in the rapidly growing medicinal cannabis market. Its partnerships and first mover position in the UK could enable it to leverage licencing opportunities both in the UK and Europe.

---

## About Atlantic Capital Markets

We are a multi-Asset brokers offering clients the ability to buy the shares either in a traditional fashion with standard shares or taking advantage of leverage and purchase via a CFD.

Call us on 01872 229 000.

---

### Disclaimer

We have provided this information for your general guidance only and it should not be considered as investment advice. Atlantic Capital Markets will not be liable for any loss or damage caused by a reader's reliance on information provided by us. We make no claims or representations as to the accuracy or completeness of any material contained in our guides. Atlantic Capital Markets is Authorised and Regulated by the Financial Conduct Authority (No 764562).