

# CannTrust Holdings

## Capitalising on medical cannabis opportunity

CannTrust is a leading producer of high-quality, standardised, pesticide-free medical cannabis (MC) products for chronic healthcare applications such as the treatment of pain, anxiety, depression, nausea and other conditions. Recent formalised MC regulation in Canada led to strong MC demand and CannTrust is increasing its production capacity accordingly.

## MC patients in Canada expanding at triple-digit rates

Canadian MC producers and consumers must be registered through the Access to Cannabis for Medical Purposes Regulation (ACMPR) provisions. The number of ACMPR patients rose 108% in 2017 to 0.27 million, and CannTrust had c 37,000 active patients at year end 2017. It sells both dried cannabis (DC) and oils derived from cannabis. Its 2017 revenue of C\$20.7m (+372% y-o-y) reflected 1,027kg of DC and 1,206kg of DC equivalent sold from oil, and was driven by its 40,000 sq ft Vaughan facility (annual MC capacity of 3,600kg). CannTrust's initial focus is on the Canadian market, but it also plans to exploit emerging MC opportunities in other countries including Germany, Denmark, Mexico and Brazil.

## Fenwick site provides strong capacity growth

CannTrust's Fenwick facility is being redeveloped for MC in two phases: the first phase (250,000 sq ft) received ACMPR certification in early 2018. The second phase (180,000 sq ft) should be completed in mid-2018. Both phases combined can provide over 50,000kg in annual MC growing capacity, reflecting c C\$350-500m in sales at current pricing levels. 30 (of 46) acres not yet utilised at the Fenwick site can support additional greenhouse construction and MC capacity.

## Joint ventures (JVs) can provide differentiation

CannTrust's exclusive global JV with Apotex, aiming to develop novel and proprietary MC dosage formats, including sustained-release, provides validation and product differentiation as the competitive environment evolves. A JV with Club Coffee is launching BrewBudz, a patented formulation permitting single-serve cannabis doses using brewing pods compatible with popular brewing machines. A JV with specialty animal health company Grey Wolf will serve the veterinary market.

## Valuation: EV of C\$876m

CannTrust finished FY17 with \$18.2m in net cash and consensus estimates call for a near quadrupling of sales and profitability in 2018. CannTrust expects c \$27m in 2018 capex costs to enhance its Vaughan facility to serve the recreational cannabis market, and to complete Phase II of Fenwick's conversion to ACMPR standards.

### Consensus estimates

Year end	Revenue (C\$m)	PBT (C\$m)	EPS (C\$)	DPS (C\$)	P/E (x)	Yield (%)
12/16	4.4	(13.6)	(0.32)	0.0	N/A	N/A
12/17	20.7	6.9	0.09	0.0	107.3	N/A
12/18e	81.0	12.9	0.12	0.0	80.5	N/A
12/19e	194.2	57.9	0.48	0.0	20.1	N/A

Source: Bloomberg

### Pharma & biotech

16 May 2018

**Price** **C\$9.66**

**Market cap** **C\$894m**

C\$1.28/US\$

### Share price graph



### Share details

Code	TRST
Listing	TSX
Shares in issue	92.5m

### Business description

CannTrust is a licensed producer and distributor of medical cannabis (MC) and began MC production at its 40,000 sq ft hydroponic indoor facility in Vaughan, Ontario in 2015. In 2017, it acquired a 46 acre property with a 430,000 sq ft greenhouse in Fenwick, Ontario, which it is transitioning to MC production.

### Bull

- Growth opportunities in MC markets in Canada, Europe and Central/South America.
- Awareness of the dangers of opioid medications can drive demand to cannabis-based pain management alternatives.
- Exclusive joint venture with Apotex, Canada's largest generic pharmaceutical manufacturer, to develop novel dosage formats and products.

### Bear

- Canadian recreational cannabis legalisation (H218 estimate) may affect MC market dynamics, as home cultivation may be permitted.
- Exposure to regulatory risk, given nascent stage of MC industry and possible cannabis politicisation.
- Increasing competition, as over 90 producers have ACMPR certification, although CannTrust believes Fenwick greenhouse has lowest operating costs.

### Analysts

Pooya Hemami, CFA	+1 (646) 653 7026
Maxim Jacobs, CFA	+1 (646) 653 7027

healthcare@edisongroup.com

**EDISON QUICKVIEWS ARE NORMALLY ONE OFF PUBLICATIONS WITH NO COMMITMENT TO WRITING ANY FOLLOW UP. QUICKVIEW NOTES USE CONSENSUS EARNINGS ESTIMATES.**

Edison is an investment research and advisory company, with offices in North America, Europe, the Middle East and AsiaPac. The heart of Edison is our world-renowned equity research platform and deep multi-sector expertise. At Edison Investment Research, our research is widely read by international investors, advisers and stakeholders. Edison Advisors leverages our core research platform to provide differentiated services including investor relations and strategic consulting. Edison is authorised and regulated by the [Financial Conduct Authority](#). Edison Investment Research (NZ) Limited (Edison NZ) is the New Zealand subsidiary of Edison. Edison NZ is registered on the New Zealand Financial Service Providers Register (FSP number 247505) and is registered to provide wholesale and/or generic financial adviser services only. Edison Investment Research Inc (Edison US) is the US subsidiary of Edison and is regulated by the Securities and Exchange Commission. Edison Investment Research Pty Limited (Edison Aus) [46085869] is the Australian subsidiary of Edison. Edison Germany is a branch entity of Edison Investment Research Limited [4794244]. [www.edisongroup.com](http://www.edisongroup.com)

#### DISCLAIMER

Copyright 2018 Edison Investment Research Limited. All rights reserved. This report has been prepared and issued by Edison for publication globally. All information used in the publication of this report has been compiled from publicly available sources that are believed to be reliable, however we do not guarantee the accuracy or completeness of this report. Opinions contained in this report represent those of the research department of Edison at the time of publication. The securities described in the Investment Research may not be eligible for sale in all jurisdictions or to certain categories of investors. This research is issued in Australia by Edison Investment Research Pty Ltd (Corporate Authorised Representative (1252501) of Myonlineadvisers Pty Ltd (AFSL: 427484)) and any access to it, is intended only for "wholesale clients" within the meaning of the Corporations Act 2001 of Australia. The Investment Research is distributed in the United States by Edison US to major US institutional investors only. Edison US is registered as an investment adviser with the Securities and Exchange Commission. Edison US relies upon the "publishers' exclusion" from the definition of investment adviser under Section 202(a)(11) of the Investment Advisers Act of 1940 and corresponding state securities laws. As such, Edison does not offer or provide personalised advice. We publish information about companies in which we believe our readers may be interested and this information reflects our sincere opinions. The information that we provide or that is derived from our website is not intended to be, and should not be construed in any manner whatsoever as, personalised advice. Also, our website and the information provided by us should not be construed by any subscriber or prospective subscriber as Edison's solicitation to effect, or attempt to effect, any transaction in a security. The research in this document is intended for New Zealand resident professional financial advisers or brokers (for use in their roles as financial advisers or brokers) and habitual investors who are "wholesale clients" for the purpose of the Financial Advisers Act 2008 (FAA) (as described in sections 5(c) (1)(a), (b) and (c) of the FAA). This is not a solicitation or inducement to buy, sell, subscribe, or underwrite any securities mentioned or in the topic of this document. This document is provided for information purposes only and should not be construed as an offer or solicitation for investment in any securities mentioned or in the topic of this document. A marketing communication under FCA rules, this document has not been prepared in accordance with the legal requirements designed to promote the independence of investment research and is not subject to any prohibition on dealing ahead of the dissemination of investment research. Edison has a restrictive policy relating to personal dealing. Edison Group does not conduct any investment business and, accordingly, does not itself hold any positions in the securities mentioned in this report. However, the respective directors, officers, employees and contractors of Edison may have a position in any or related securities mentioned in this report. Edison or its affiliates may perform services or solicit business from any of the companies mentioned in this report. The value of securities mentioned in this report can fall as well as rise and are subject to large and sudden swings. In addition it may be difficult or not possible to buy, sell or obtain accurate information about the value of securities mentioned in this report. Past performance is not necessarily a guide to future performance. Forward-looking information or statements in this report contain information that is based on assumptions, forecasts of future results, estimates of amounts not yet determinable, and therefore involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of their subject matter to be materially different from current expectations. For the purpose of the FAA, the content of this report is of a general nature, is intended as a source of general information only and is not intended to constitute a recommendation or opinion in relation to acquiring or disposing (including refraining from acquiring or disposing) of securities. The distribution of this document is not a "personalised service" and, to the extent that it contains any financial advice, is intended only as a "class service" provided by Edison within the meaning of the FAA (ie without taking into account the particular financial situation or goals of any person). As such, it should not be relied upon in making an investment decision. To the maximum extent permitted by law, Edison, its affiliates and contractors, and their respective directors, officers and employees will not be liable for any loss or damage arising as a result of reliance being placed on any of the information contained in this report and do not guarantee the returns on investments in the products discussed in this publication. FTSE International Limited ("FTSE") (c) FTSE [2014]. "FTSE(r)" is a trade mark of the London Stock Exchange Group companies and is used by FTSE International Limited under license. All rights in the FTSE indices and/or FTSE ratings vest in FTSE and/or its licensors. Neither FTSE nor its licensors accept any liability for any errors or omissions in the FTSE indices and/or FTSE ratings or underlying data. No further distribution of FTSE Data is permitted without FTSE's express written consent.