

Media Coverage

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Title: Volatile pot stocks arouse strong interest

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The appointment of a key adviser to Stemcell United – an ASX-listed Singaporean company looking into joining the growing medicinal pot industry – sent its share price soaring 3000 per cent on Tuesday, a one-day gain that veteran stockbroker Richard Coppleston wrote investors “may never see again in your lifetime”.

It’s a further sign of the fevered interest in marijuana stocks, whose prices have surged amid the government’s moves to part-legalise the nascent sector.

Stemcell United’s share price moderated 10 per cent to 37¢ on Wednesday.

In the US, medicinal cannabis is a \$US7.4 billion industry, noted a team of Morgans analysts led by Scott Power in a recent desk note. The broker doesn’t formally cover the sector, but made an attempt to provide clients with some guidance on it given surging interest. The note states that given the industry is in its infancy and still operates under an “unclear legal status”, it is difficult to gauge the size of the total target market.

James McGrew, executive director of corporate stockbroking at Argonaut Securities, developed an expertise in the sector after the firm underwrote

the backdoor ASX listing of Botanix Pharmaceuticals. He said the US market is “a couple of years ahead of us”. In the US, major medicinal cannabis provider GW Pharmaceuticals has a market capitalisation of \$US3.1 billion.

The 10 or so ASX stocks in the space are considerably smaller – the three largest are Auscann Group, Medlab Clinical and MMJ Phytotech, who have

market capitalisations between \$90 million and \$160 million. While they tend to be lumped together, the business models of medicinal cannabis companies are widely varied, Mr McGrew said. Some, such as MGC

Pharmaceuticals, are ASX-listed but have until now operated primarily overseas. Some, such as Botanix, are medical companies seeking formal approval through medical trials (in Botanix’s case, as an acne treatment). And others, such as Stemcell United, are alternative medicine companies.

While Stemcell United’s share price soared after it appointed Nevil Schoenmakers – dubbed the “King of Cannabis” for having cultivated the marijuana strains that formed the basis of those now used commercially in the 1980s, when it was legally murky to do so – it merely said it was “assess[ing] opportunities” in the sector.

Several medicinal cannabis companies listed late last year, when the Australian government made moves to legalise the sector. Since November, businesses have been able to apply for licences to

grow and research medicinal cannabis in Australia. Several such licences have been granted, and in February, the government moved to make the importation of medicinal cannabis easier. As Stemcell United’s wild ride shows, the stocks are highly volatile.

Mr McGrew compared them to junior mining stocks, with promising – but uncertain – ground to explore.

“The sector isn’t for everyone,” he said. “These stocks are being bought on their potential rather than on their performance as financial vehicles. But in the Australian market, there’s enormous appetite for it. And that’s why such companies list here.

“Some of them might be lucky to make it to the end of the year. But others will be serious companies in the future. But you need the stomach for it to invest in them.”

