

If You Can Buy Only One Cannabis Stock, Consider This One

By [Connor Smith](#)

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A lack of momentum among lawmakers this summer—as federal cannabis reform took a back seat to issues like infrastructure—has weighed on shares of midsize marijuana seller [TerrAscend](#) in recent months. Its declines could prove fleeting.

A week ago, the company announced [a \\$545 million all-stock acquisition](#) of Michigan-based Gage Growth. Though the deal would expand TerrAscend's (ticker: TRSSF) footprint to five states and Canada, it received [a muted response](#) from investors. [AdvisorShares Chief Operating Officer Dan Ahrens](#) chalked it up to late-summer slowness ahead of the Labor Day holiday weekend.

"It's a highly accretive acquisition," Ahrens says, noting Gage brings TerrAscend a strong presence in Michigan. "It wasn't noticed by many people, but I think it's a big move. I think it's the start of a big wave of M&A we're going to see in the United States."

Ahrens manages the U.S. focused [AdvisorShares Pure US Cannabis](#) exchange-traded fund (MSOS), as well as its more global cousin, [AdvisorShares Pure Cannabis](#) (YOLO). The top four holdings in the U.S. cannabis-focused fund are the four most prominent U.S. cannabis operators—[Green Thumb Industries](#) (GTBIF), [Curaleaf Holdings](#) (CURLF), [Trulieve Cannabis](#) (TCNNF), and [Cresco Labs](#) (CRLBF)—with TerrAscend ranking seventh and making up 5.3% of the portfolio.

Ahrens argues that TerrAscend warrants more attention, especially given that it's trading at just 2.9 times estimated fiscal 2022 sales. By comparison, Green Thumb trades at 5.3 times estimated fiscal 2022 sales, while Curaleaf trades at 4.3 times next year's estimates. TerrAscend shares closed down 2.8% on Wednesday, at \$6.57. They are down 35% in 2021.

"I like all those companies a great deal," Ahrens says. "TerrAscend is one of my holdings that's just right below them. It's in my fund's top 10, but it's very soon going to move up its ownership a little bit, once combined with the Gage acquisition."

Beyond the acquisition and a licensing deal with the [popular Cookies brand](#), Ahrens likes the company's management team, including [Executive Chairman Jason Wild](#). Ahrens credits Wild in part for the company's strong balance sheet, which includes \$154.2 million in cash and cash equivalents, compared with \$74.1 million in current liabilities. Wild's JW Asset Management owns large stakes in both Gage and TerrAscend. The companies said Wild—as well as Richard Mavrinac, a director on both boards—didn't take part in the meeting in which the transaction was discussed and approved and didn't vote on the transaction.

Though the stock has fallen [along with its peers](#), Ahrens believes there's a disconnect between the company's financials and the reaction to its most recent quarterly report in August, in which management withdrew guidance. Ahrens believes the brewing Gage acquisition might explain that decision.

"I think the future is very bright for the combined companies, and it has not been baked into the price," Ahrens adds. "That's why I think this one's one of the most undervalued out there."

After a strong run-up last fall, shares of U.S. cannabis operators have sagged as individual investors grew antsy for federal cannabis reform, Ahrens says, though he believes change is coming. Senate Majority Leader Chuck Schumer (D., N.Y.) [unveiled his plan for descheduling the plant in July](#), though infrastructure and the broader budget negotiations have taken priority.

One simple fix with bipartisan support that [would immediately benefit U.S. operators](#) would be protections for bankers that service plant-touching businesses in states where cannabis is legal. Another sticking point is the ability for U.S. operators to list shares on the New York Stock Exchange or Nasdaq, a luxury already afforded to Canada-focused businesses.

That's one way TerrAscend differs from its peers. Though it's forced to list shares in Canada and trade over-the-counter in the U.S. because of its operations in the States, the company is based in Mississauga, Ontario, and is licensed in Canada, too. It also has a complicated deal with [Canopy Growth](#) (CGC), of which brewer [Constellation Brands](#) (STZ) owns a controlling stake.

Though Canopy can't own an American operator outright, it has a complicated deal through warrants for [a roughly 20% stake](#) in TerrAscend that is contingent on changes to U.S. cannabis laws. Canopy CEO David Klein in February called TerrAscend "a key component of our U.S. ecosystem strategy."

"For anybody that is intrigued that the Canadians will have access to the U.S. once reforms happen, TerrAscend might really be in the driver's seat, if that ever happens, because of their Canopy relationship," Ahrens said.

For those agonizing over the strengths and weaknesses of U.S. and Canadian outfits, TerrAscend offers an intriguing play on both.