



Mark Bunting
Publisher

COVER STORY

**KEYSTOCKS' TAKE ON
CANNABIS, CANOPY AND
CRONOS AS CIBC STARTS
COVERAGE**



Trulieve

NEW COVERAGE OF
TRULIEVE GIVES THE
STOCK 109% UPSIDE



WITH CANOPY AND
TILRAY AS CLIENTS, 3
SIXTY RISK SOLUTIONS
COULD GAIN
EARLY 50%



FOUR ACTIONABLE,
THEMATIC IDEAS AS
STOCKS START NEW
FOUR-YEAR CYCLE



GLOBAL CANNABIS TITANS

KeyStocks' research on Canopy Growth and Cronos Group

Mark Bunting, Publisher & President, Capital Ideas Media

CIBC decided it was all in on cannabis this past week as the bank's capital markets arm officially started coverage of the sector, and named **Canopy Growth** and **Cronos Group** most likely to achieve the status of global cannabis titans.

But while CIBC's research report contains very thorough and useful information, the bank has done investment banking with both companies and will seek to do some more.

There's nothing nefarious about that. It's a common practice and it's just business. However, it could result in CIBC's analysts being less likely to be negative about the companies, if need be.

*"ONE OF THE LEAST TALKED
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KEYSTONE FINANCIAL

So we've turned to one of our partners, independent research advisory KeyStone Financial, for their view of Canopy Growth and Cronos.

KeyStone Senior Analyst **Aaron Dunn** and founder **Ryan Irvine** have done extensive research for their KeyStone 2019 Cannabis Sector Special Report, which looks at more than 100 publicly-listed companies.

Here's an overview from KeyStone on the cannabis sector, and excerpts from their research on Canopy Growth and Cronos Group:

Aaron Dunn

CFA, Senior Analyst, KeyStone Financial

<https://keystocks.com>

The Canadian cannabis sector has been a roller coaster ride for investors.

Stock prices soared in the months leading to legalization only to lose half or more of their value in the few months afterwards.

The start of 2019 has seen life breathed back into the embattled sector, at least temporarily, but with so much volatility can investors trust the recent recovery?

KeyStone's 2019 Cannabis Sector Special Report filters the noise and casts aside the hype by focusing on the real numbers underpinning the sector and its more than 100 publicly-listed stocks.

(Sign up as a KeyStocks client and get this report, valued at \$599, for free. <https://keystocks.com/product/keystones-2019-cannabis-report/>)

One of the least talked about industry facts is that the **top 10 Canadian producers** alone are planning to expand capacity to over 2.2 million kg per year over the next two to three years.

This substantially oversupplies the Canadian market, where domestic supply is estimated to be between 0.8 and 1.2 million kg per year.

Oversupply of the domestic market would lead to highly competitive conditions with the **winners being companies that can mass produce a high-quality product at a competitive cost structure** and access potential growth in the global medicinal cannabis market.

Which Cannabis stocks will lead the pack?

Canopy Growth (TSX:WEED;NSYE:CGC) is a **clear front runner** in the race to global cannabis leadership.

Canopy is the pioneer Canadian cannabis stock and remains the largest company in the space today with a market cap of \$20 billion (over 1/3 of the entire sector's market value).

The company last reported fiscal Q2 result with revenue of \$23.3 million which was up 33% compared to Q2 of last year but down 10% from Q1.

Revenue growth will accelerate rapidly over the next few years, but future profitability remains uncertain (the cash burn was nearly \$200 million for the last two quarters).

The consensus is that Canopy can grow its production to up to 775,000 kg per year over the next two to three years.

That's a lot of weed but in order to find buyers, Canopy is going to have to source most of its demand outside of the limited Canadian market.

The valuation is expensive, and the risks are still high, but with over \$5 billion in cash and an industry leading portfolio of distribution and partnership agreements...

"CANOPY GROWTH IS A CLEAR FRONT RUNNER IN THE RACE TO GLOBAL CANNABIS LEADERSHIP. IT'S THE PIONEER CANADIAN CANNABIS STOCK AND REMAINS THE LARGEST COMPANY IN THE SPACE TODAY WITH A MARKET CAP OF \$20 BILLION."

KEYSTONE FINANCIAL

...Canopy is well positioned to remain the leader in Canada's cannabis space

▶ Canopy Growth Corporation (TSX:WEED) | 1 year chart



Cronos Group (TSX:CRON;NASDAQ:CRON). The company has a market cap of \$3.6 billion making it the 3rd-largest cannabis stock in Canada.

Based on quarterly revenues of \$3.8 million, the company ranks 9th.

Where the company ranks number one is in valuation with the stock trading at 236 times its annualized quarterly revenue (companies like Apple, Microsoft and Facebook trade at less than 10 times).

Cronos' plan for growth is to leverage its existing international footprint and expand near term production capacity from the current level of 40,105 kg per year to over 117,000 kg per year.

The company still has a lot to prove from a financial perspective but that hasn't stopped investors from piling into the stock, raising the share price 43% in just the last few weeks.

"WHERE CRONOS RANKS NUMBER ONE IS IN VALUATION WITH THE STOCK TRADING AT 236 TIMES ITS ANNUALIZED QUARTERLY REVENUE (COMPANIES LIKE APPLE, MICROSOFT AND FACEBOOK TRADE AT LESS THAN 10 TIMES)."

CANACCORD | Genuity

Four Stocks for the New Four-Year Cycle

Canaccord Genuity technical analyst Javid Mirza believes stocks are in an ongoing secular bull market that could last until as late as 2030.

But before stocks can approach new highs again, they need to work their way through a down phase as part of a new four-year cycle reset, which started taking shape technically in October, and confirmed itself in December, according to Mr. Mirza, who thinks the **S&P 500 won't hit bottom until April.**

For investors with a longer-term view, Mr. Mirza says,

"We view the current four-year cycle reset as an opportunity to add exposure to the ongoing secular bull market."

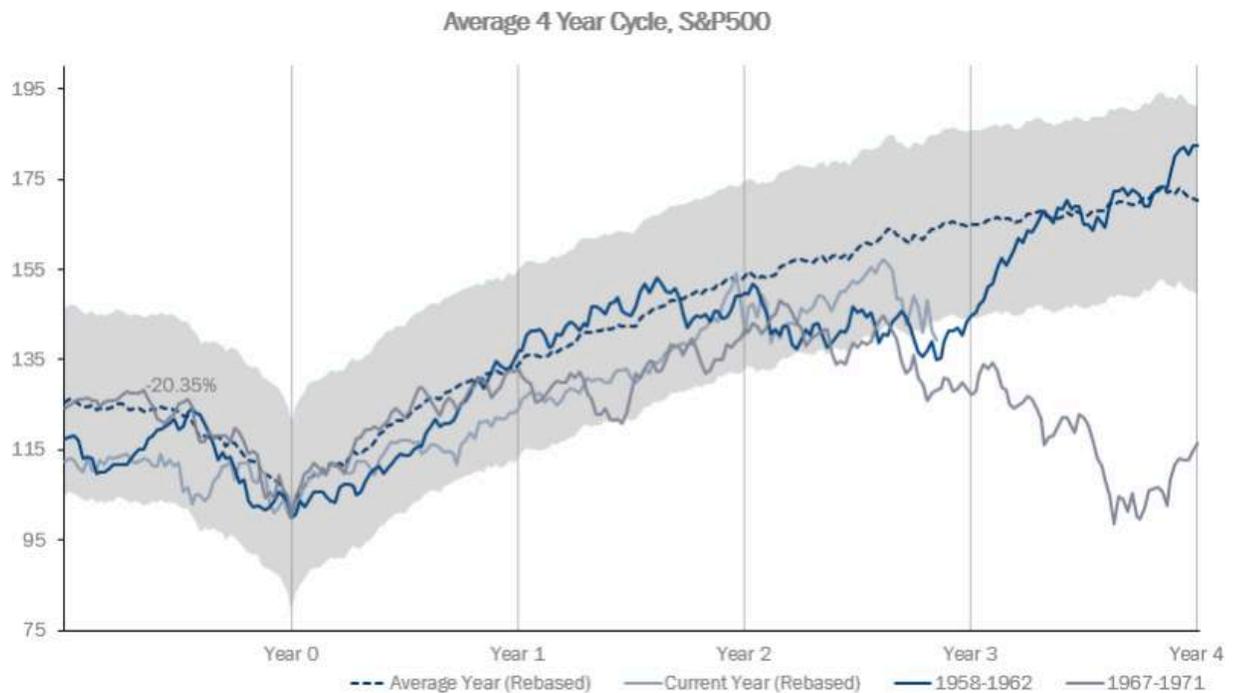
Mr. Mirza especially likes the look of a couple of lumber stocks and two industrial names.

Here's an excerpt from Canaccord Genuity's recent report:

Our work suggests that a price target of 2,500 on the S&P 500 and a time target of mid-April 2019 supports a four-year cycle low for equity markets.

This suggests that further stock market weakness is likely into Q1 2019. We view these price and time targets as goal posts for Investment Managers to maximize exposure to equities.

We draw historical parallels from two previous cycles that followed similar price tracks to the current cycle, and in our view, the current cycle is more likely to resemble the 1958 - 1962 workout than that of 1967 - 1971.



Source: Cansaccord Genuity

Equity markets are currently 13 weeks into a four-year cycle reset, which is the contraction phase of the business cycle.

The four-year cycle is the stock market equivalent of a typical business cycle, translated into price.

The business cycle moves through two phases:

- Contraction is from peak to trough, or what we refer to as the four-year cycle reset. This is where we are now.
- Expansion is from trough to peak, or what we refer to as the four-year cycle.

Our long-term technical work suggests that we are currently in a secular bull market in equities that should last somewhere into 2028 – 2030.

Actionable, thematic stock ideas:

Materials – Attractive long-term entry point in Lumber:

We highlight the improving charts of **Canfor** (TSX:CFP) and **Interfor** (TSX:IFP). Both charts are seeing improvement in price momentum, and relative strength versus the TSX Composite, and volume is showing signs of accumulation, all of which are early technical positives.

CFP – Weekly (3 Years)



Source: StockCharts.com, Canaccord Genuity Research

- **Top Panel: MACD** – The stock remains on a weekly “mechanical sell” signal, a technical negative (see red circle). However, downward momentum is slowing, an early technical positive (see blue arrow).
- **Second Panel: SCIR** – **Relative strength versus the TSX Composite is improving, another early technical positive (see blue circle).**
- **Third Panel: Price** – CFP is trading below the 40/200-week moving averages, a strong technical negative. First support is near 16.10. Important support is near 12.77. First resistance is near 20.50, followed by the 4-year (200-week) moving average, currently at 25.47. Important resistance is near the 40-week moving average currently at 21.08.
- **Bottom Panel: Volume and On-Balance-Volume** – Volume and On-Balance-Volume are showing signs of accumulation, an early technical positive (see blue arrow).

IFP – Weekly (3 Years)



Source: StockCharts.com, Canaccord Genuity Research

- **Top Panel: MACD** – **The stock just triggered a new weekly “mechanical buy” signal, a technical positive (see blue circle).**
- **Second Panel: SCIR** – Relative strength versus the TSX Composite is improving, an early technical positive (see blue circle).
- **Third Panel: Price** – IFP is trading below the 40/200-week moving averages, a strong technical negative. First support is near 14.20. First resistance is near the 4-year (200-week) moving average, currently at 17.35, then 18.49. Important resistance is near the 40-week moving average, currently at 23.26, followed by 20.27.
- **Bottom Panel: Volume and On-Balance-Volume** – Volume and On-Balance-Volume are showing signs of accumulation, another early technical positive (see blue circle).

Industrials – Attractive long-term entry point in leadership in Industrials:

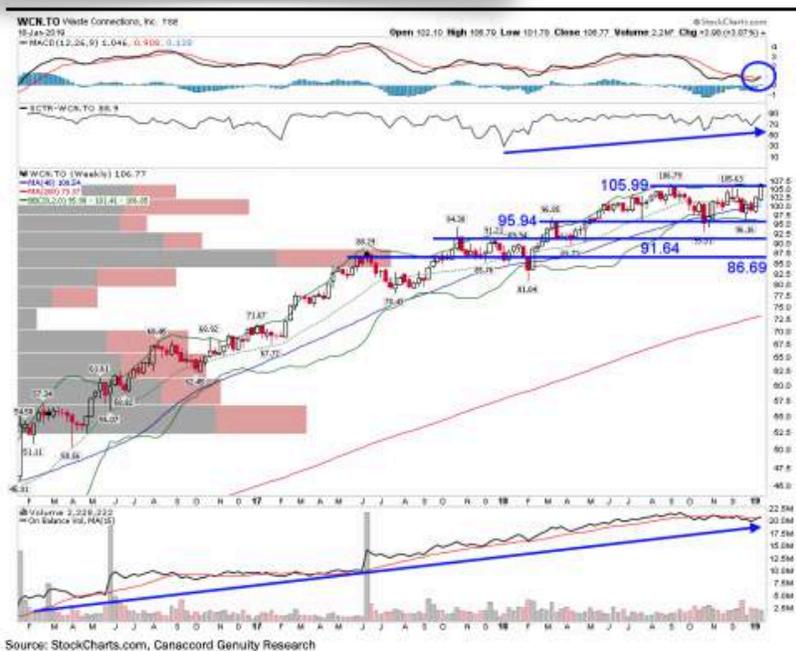
We highlight the strengthening charts of **CAE** (TSX:CAE) and **Waste Connections** (TSX:WCN). Both charts are seeing price momentum improve, relative strength versus the TSX Composite is reaccelerating, and volume is showing signs of buying pressure, all of which are technical positives.

CAE – Weekly (3 Years)



- **Top Panel: MACD** – The stock recently triggered a new weekly “mechanical buy” signal, a technical positive (see blue circle).
- **Second Panel: SCTR** – Relative strength versus the TSX Composite is reaccelerating, another technical positive (see blue arrow).
- **Third Panel: Price** – CAE is trading above the 40/200-week moving averages, a strong technical positive. First support is near the 40-week moving average, currently at 25.82. Important support is near 24.47. First resistance is near 27.49. A close above this level sees next upside technical target near 30.50.
- **Bottom Panel: Volume and On-Balance-Volume** – Volume and On-Balance-Volume are showing signs of buying pressure, another technical positive (see blue arrow).

WCN – Weekly (3 Years)



- **Top Panel: MACD** – The stock just triggered a new weekly “mechanical buy” signal, a technical positive (see blue circle).
- **Second Panel: SCTR** – Relative performance versus the TSX Composite is reaccelerating, another technical positive (see blue arrow).
- **Third Panel: Price** – WCN is trading above the 40/200-week moving averages, a strong technical positive. First support is near 105.99. Important support is near the 40-week moving average, currently at 100.54. Next upside technical target is near 116.
- **Bottom Panel: Volume and On-Balance-Volume** – Volume and On-Balance-Volume are showing signs of buying pressure, another early technical positive (see blue arrow).

INITIATIONS



Beacon Securities analyst Russell Stanley initiated coverage of **Trulieve Cannabis** (CSE:TRUL) with a “buy” rating and a Street-high target price of \$28 per share which suggests 109% upside.

“Trulieve dominates the Florida cannabis market (population of 21.3 million) with an approximate 60-70% share of volumes”, Mr. Stanley added in his report.

“Florida is a highly concentrated medical cannabis market with just 14 companies currently licensed to operate in it. Trulieve’s Q3/18 EBITDA margins of 44% are otherwise unheard of amongst publicly traded cannabis companies which reflects the company’s focus on profitable growth.”

“Trulieve has also made significant progress in expanding to California (population of 40 million) and Massachusetts (population 6.9 million) which should support continued revenue/EBITDA expansion.”

“We value Trulieve using a 20 times enterprise value to 2020 estimated EBITDA multiple which we use in combination with our \$124 million EBITDA forecast. This multiple represents a 50% discount to the 40 times average of Trulieve’s closest peers.”

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Canaccord Genuity analyst Doug Taylor initiated coverage on **3 Sixty Risk Solutions Ltd.** (CSE:SAFE) with a “speculative buy” rating and price target of \$0.85, giving the stock 49% upside.

“3 Sixty Risk Solutions provides seed-to-sale security solutions for the burgeoning cannabis industry” Mr. Taylor added in his report.

“The recent combination of 3 Sixty Secure Corp. and Total Cannabis Security Solutions married a leading consultant in cannabis security with a provider of guard and secure transport services.”

“The company’s operating and financial track record is limited at this point which informs our speculative rating however we see the opportunity for attractive shareholder returns as 3 Sixty’s growth trajectory is confirmed.”

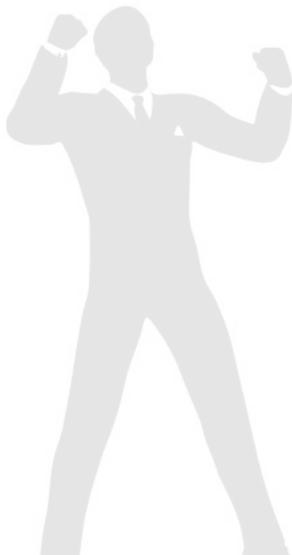
“3 Sixty combines privileged customer relationships, customized vehicles, and a one-stop shop approach to cannabis security and the company has already established relationships with most top Canadian players including Canopy Growth, OCS, Tilray and Aphria.”





Upgrades

- ▶ **Copper Mountain Mining Corp. (TSX:CMMC)** has been upgraded to “speculative buy” from “hold” by TD Securities analyst Craig Hutchison. He has a price target of \$1.50 which implies a return of 72%.
- ▶ **Iamgold Corp. (TSX:IMG)** has been upgraded to “outperform” from “neutral” by Macquarie analyst Michael Siperco. He has a target price of \$6 per share which suggests 57% upside.
- ▶ **TMX Group Ltd. (TSX:X)** has been upgraded to “outperform” from “sector perform” by RBC Dominion Securities analyst Geoffrey Kwan. He has a target price of \$89 per shares, which implies a return of 20%.
- ▶ **WSP Global Inc. (TSX:WSP)** has been upgraded to “outperform” from “neutral” by CIBC World Markets analyst Jacob Bout. He has lifted his target price to \$75 from \$70 which projects a return of 20% over the next 12 months.



- ▶ **Hudbay Minerals Ltd. (TSX:HBM)** has been

Downgrades

downgraded to “neutral” from “outperformer” by CIBC World Markets analyst Oscar Cabrera. He has lowered his target price to \$8 from \$9.

- ▶ **Peyto Exploration & Development Corp. (TSX:PEY)** has been downgraded to “market perform” from “outperform” by Raymond James analyst Kurt Molnar. He has cut his target price to \$7.50 from \$12.
- ▶ **New Look Vision Group Inc. (TSX:BCI)** has been downgraded to “sector perform” from “outperform” by National Bank Financial analyst Leon Aghazarian. He has lowered his target price to \$34 from \$38.
- ▶ **Sherritt International Corp. (TSX:S)** has been downgraded to “hold” from “speculative buy” by TD Securities analyst Greg Barnes. He has cut his target price in half from \$1.20 to \$0.60.



SPEAKING by Dwight Galusha

setyourstop.com

After spending the last nine months consolidating, **CAE (TSX:CAE)** is now threatening a breakout as price action pushes up against the underside of a downward sloping trend-line. The momentum indicator (MACD) has put in a higher low and is now attempting to curl higher off the zero line. This suggests that if price action can breakout, momentum has lots of room to run before the stock becomes overbought.

