



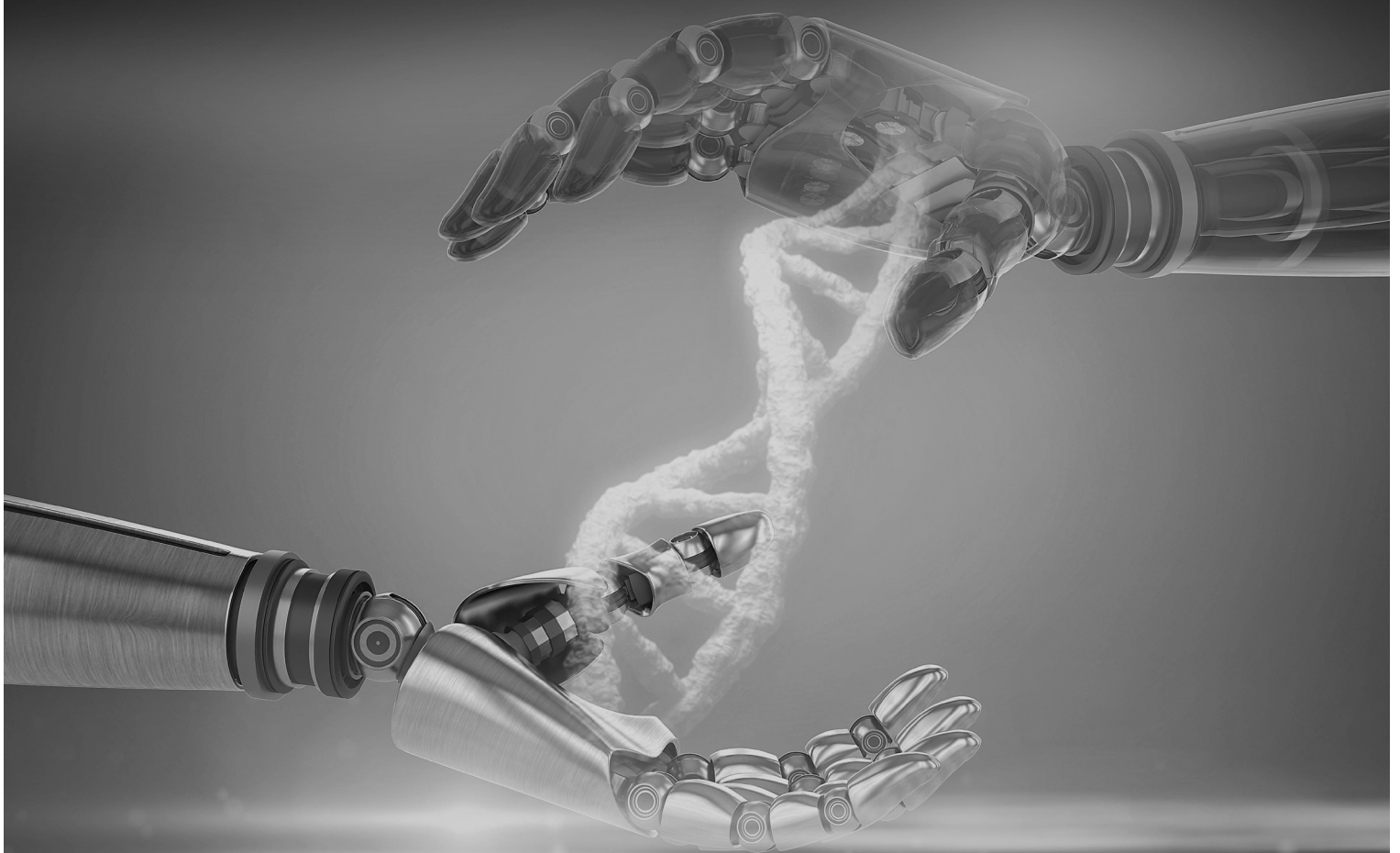
**STOCKS  
DOWN UNDER**

22 MARCH 2022

# Emerging Stocks Down Under

🗨️ *Survival is the only road to riches.* 🗨️

- Peter Bernstein (1919-2009), financial historian and economist



**ECO FIBRE**

Even hemp was not Covid-proof

# ECOFIBRE

Even hemp was not Covid-proof

Stocks Down Under rating: ★★☆☆

ASX: EOF  
Market cap: A\$137.9M

52-week range: A\$0.38 / A\$1.44  
Share price: A\$0.395

When we last looked at Ecofibre in Stocks Down Under in late March 2020 this promising developer of hemp-based products had been beaten down to less than half the November 2019 high of \$3.79 a share. Close to two years later, in February 2022, it's been as low as 39.5 cents. However, with well-regarded products in the market and a pipeline of clinical data coming soon, Ecofibre may be worth another look.

## Share price chart



Source: Tradingview

It seems that any time a new industry emerges in the Western world, it has to go through several boom-and-bust cycles before the real winners emerge. A long time ago we saw it with computers. We have seen it numerous times in biotech since 1980. We saw it from the late 1990s with the Internet. And, since 2014, we have seen it with cannabis and hemp stocks. Broadly speaking, the years 2014 to 2019 were boom years for cannabis and hemp, and 2019 to the present has seen the bust. For a good example of the bust, look at Canopy Growth, a major Canadian cannabis company whose ticker code on the Toronto Stock Exchange is 'WEED'. Back in May 2019 Canopy Growth was changing hands at more than C\$65 a share. Now it is only C\$9 or so.

Before this bust is over, we predict there will be some great bargains in the cannabis and hemp space both on ASX and other exchanges. Ecofibre, which is headquartered in Brisbane and in Georgetown, Kentucky, could be one of them.

## In 2021, vaccines took priority over CBD

Ecofibre's focus in the cannabis and hemp space is hemp, that is, products obtainable from *Cannabis sativa*, as opposed to 'cannabis' proper, which is products from *Cannabis indica*. If you are a health nut you will doubtless have heard of the nutritional qualities in hemp seed, which is rich in protein, fatty acids and other dietary elements. Using the trade name 'Ananda', EcoFibre sells hemp products into the food and nutraceutical space, while its 'Hemp Black' brand is currently being marketed as a non-carbon alternative to carbon black in the textiles space, among other potential applications (early in the pandemic Ecofibre started selling Hemp Black face masks).

One important division of Ecofibre, called Ananda Professional, markets CBD oils from hemp to the medical world, CBD being the 'cannabidiol' chemical compound that many doctors are exploring for the treatment of numerous medical conditions including epilepsy, cancer and Multiple Sclerosis. All of this has made Ecofibre a 'real' company, with FY21 revenue of A\$28.8m. Alas, it was A\$50.7m in FY20 and that is one of the reasons why Ecofibre stock has not fared well over the last couple of years.

The problem for Ecofibre was basically COVID-19. The pandemic shut the doors of bricks-and-mortar pharmacies in the US for a long time, hampering patient access to CBD products. At the same time, as demand dropped away, supply of product stepped up, which took down pricing. But that was then and this is now.

In 2022, Ecofibre sees the supply-demand issues receding. In the six months to December 2021 Ecofibre seemed to stabilise the ship, with revenue increasing from \$14.7m to \$15.5m. The company was still in the red, with an EBITDA loss of \$6.5m, but with grants and cash on hand it had \$12.5m, so was funded for calendar 2022. And before 2022 is out Ecofibre may benefit from some important regulatory changes.

## **Thank you, Congress**

As anyone who knows the cannabis industry will tell you, the US is way behind many other countries when it comes to cannabis regulation. CBD products are legal in most states, meaning that medicinal cannabis is easy to get on pharmacy shelves, but it is hard to get a prescription for such products, because the FDA still does not have a regulatory pathway for them. Congress could potentially change all that with the recently introduced H.R. 841, which would allow CBD products to be marketed as dietary supplements. Congress, however, has yet to get around to passing this bill, despite it having bipartisan support and the majority Democrats professing to like all things weed. Should it pass, expect a boom in Ecofibre's US sales of CBD products, because from the get-go Ecofibre has insisted on making product under Good Manufacturing Practice, putting it ahead of other products that might have to be pulled once the FDA has the appropriate oversight.

Like any good cannabis and hemp company with potential medical claims for its products, Ecofibre has been investing in clinical studies to back up those claims. There are currently studies ongoing on pain, CIPN (chemotherapy-induced peripheral neuropathy), Alzheimer's dementia, endometriosis and sleep disturbance. The sleep study, which has Dr Janet Schloss of Southern Cross University as Principal Investigator, could prove particularly valuable. If CBD oil proves better than placebo in helping people get back to sleep, something like 30% or 40% of adults are going to be interested. And in Australia patients are going to have an easier time getting their hands on CBD after the TGA's December 2020 decision to 'down schedule' CBD to Schedule 3 (Pharmacist Only) from Schedule 4 (Prescription Only) previously.

We think the combination of a recovery from Covid-19, better regulation and further clinical data can help re-rate Ecofibre in 2022, particular now that cannabis and hemp stocks seem to have given up most of the gains of the 2014-2019 boom. The risk for investors getting in to Ecofibre now is that sales and pricing take a while to get back to their pre-pandemic level. For investors comfortable with that risk, this one is four stars.

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