

MGC positioned for medical cannabis market

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The Australian Federal Government Health Minister, Greg Hunt, has announced substantial changes in relation to medical cannabis access for chronic and seriously ill Australians. The upshot of these moves will be a boost in supply of the product and flexibility in terms of importation laws, which will expedite access to cannabis for medical purposes.

While there will be heavy vetting of patients prior to prescribing medical cannabis and tight constraints surrounding its distribution, there is no doubt it will increase cannabis demand, benefiting those involved in the legal production and distribution of medical grade cannabis.

Though several ASX companies are involved in this area including Creso Pharma (ASX:CPH) and MMJ Phytotech (ASX:MMJ) there are limited markets at this stage. Having said that, there has been a sharp acceleration globally in terms of freeing up legislation to allow for the use of medical cannabis.

One of the most prominent potential beneficiaries is MGC Pharmaceuticals (ASX: MXC), and these developments haven't gone unnoticed with the company's shares spiking more than 10% shortly after the market opened on Thursday.

As MXC executive chairman, Brett Mitchell noted, "These changes will allow companies to legally import, store and sell medical cannabis products for interim supply in Australia until domestic production meets local needs".

Given that the Office of Drug Control, which is part of the Department of Health will implement the policy effective immediately there will be a substantial period of time before supply can catch up with demand, providing an early mover company such as MXC with a strategic opportunity to sell into the Australian market.

So swiftly will the changes be implemented that it is expected Australians will have a continuous supply of medical cannabis within eight weeks. Consequently, this change could result in material distribution agreements for MXC in the near term.

MXC is a European based specialist medical cannabis group with many years of technical, clinical and commercial experience. The company's founders were prominent figures in the Israeli medical cannabis industry and the core business strategy is to develop and supply high quality phytocannabinoids resin extract for the growing demand in cosmetic and medical markets in Europe, North America and Australasia.

While the company's share price movement following the announcement of changes in legislation was substantial, MXC's run began at the start of February.

News that MXC had completed the acquisition of Czech based medical cannabis company Panax Pharma, immediately enabling the group to conduct medical cannabis breeding research was an important development for the group as it will facilitate the growing of various strains of medical grade cannabis for the company's research plan and operations.

In mid-February the company commenced a clinical study to assess the efficacy of a medical cannabis formulation in children and adolescents with treatment resistant epilepsy. Results from the study will be instrumental in the company's development of its own proprietary pharmaceutical grade product for epilepsy treatment.

This is a substantial market given that in Europe alone there are close to 1 million children and young people with epilepsy, and a further 2 million people aged between 20 and 64 suffering from the condition which is either uncontrolled or inadequately controlled by prescription pharmaceuticals.

The most substantial boost in the share price by value and volume occurred earlier this week after the company announced that its Slovenian cannabinoid extraction facility was near completion and remained on track to commence first production in the second quarter of 2017.

This prompted a 15% rerating – not surprising given it is akin to a mining company making the transition from explorer to producer.

The nameplate production capacity of the facility is 3,000 kilograms of biomass per year, assuming a 100% operating capacity.

Providing investors with further near-term revenue visibility was news that MXC's medical cannabis growing operations would commence in the Czech Republic with Panax this week, with an outdoor crop being planted by late April/May 2017.

On the distribution front, MGC Derma is in advanced discussions with cosmetic distributors, retailers and e-tailers in the UK and Europe with former Revlon Director, Malcolm Kemp looking to commence sales into these markets at some stage in 2017.

The company received its first major sales order and commencement of revenues from its Czech Republic distribution deal for its MGC Derma cannabidiol-based cosmetic products with Czech Medical Herbs s.r.o. (CMH).

CMH is the exclusive distributor for MGC Derma products in the Czech Republic and is a specialist company in the field of cannabis for medical uses, demonstrating that the company is already well equipped to sell into the medical cannabis market.

MXC's agreement with CMH is for the distribution of MGC Derma cosmetics products to over 80 retail outlets in the Czech Republic. This represented the commencement of the company's second revenue stream, complementing its first exclusive distribution deal in California.

The sales order was expected to generate revenues of \$65,000, part of the entire distribution agreement valued at circa \$500,000 in annual gross sales.

Having experience with supply chain management, including adherence to proper distribution protocols should provide MXC with an added advantage in terms of being accepted into new markets such as Australia.

<http://www.news.com.au/finance/business/breaking-news/mgc-positioned-for-medical-cannabis-market/news-story/6e7e84ab4069af3ea1091e4ab4e1f245>