

CANNABIS

The high road to listing

SilverLeaf is looking to raise R50m for new cannabis-related opportunities, but says R20m is all it really needs to get the balling rolling. It plans to use the tax-efficient 12J investment structure which, it hopes, will allay SA investors' lingering perceptions of risk related to cannabis investments

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● SilverLeaf Investments, a recently launched cannabis-focused fund, is taking its first steps on a journey that could hit full stride with a JSE listing.

SilverLeaf has rushed in a seed capital fundraiser to capitalise on cannabis-related opportunities, using the tax-efficient 12J investment structure. The initial investment floor has been set relatively low with a minimum investment of R50,000, which could attract younger, first-time investors in the first round of funding.

SilverLeaf has officially targeted a seed capital sum of R50m in a pitch that closes this Friday. But joint CEO Pierre van der Hoven, formerly a mover and shaker in the media industry, says a R20m capital raising will be sufficient to kick-start the fund's investment endeavours.

He says institutional investors in SA remain wary of the cannabis market.

The 12J structure, which offers large tax break to investors, may help mitigate lingering perceptions of regulatory risk in the cannabis sector.

As a 12J structure, SilverLeaf will offer a 100% tax deduction in the year the investment is made. The fund has set a targeted internal rate of return of between 20% and 30% over five to seven years. Van der Hoven says the initial response has been encouraging, adding that the fundraising plans were put together in just three weeks. The longer-term plan is to raise up to R500m of capital over the next few

years, with a possibility of listing the fund on the JSE's AltX market.

These efforts may coincide with increased institutional investor interest in cannabis. It's a move that may attract savvy US investors, who see the potential for SA to become a base for cannabis businesses.

Local investor familiarity with cannabis is growing, though.

There are already three micro-cap companies on the JSE dabbling in cannabis – Labat Africa, Nutritional Holdings and Go Life. The collective market value of these small counters is about R325m.

But larger companies, including Remgro and liquor subsidiary Distell, have also invested in cannabis brands – giving a whiff of mainstream appeal to the sector.

Internationally, cigarette giant British American Tobacco has explored cannabis applications, and tobacco and liquor conglomerate Altria holds a 45% stake in Cronos, a Canadian cannabis firm.

Internationally, investment sentiment for cannabis is regaining its high after a sharp drop in 2019. Alternative Harvest, a popular exchange traded fund investing in cannabis-aligned counters, is up a mind-blowing 71% since the start of the year. The share price of Canopy Growth, the world's largest cannabis company, has surged almost 40% since January.

The global legal cannabis market is estimated to be \$30bn and is forecast to reach between \$75bn and \$100bn by 2030.

Van der Hoven believes SA's fledgling cannabis industry is impossible to ignore.

The "Global Cannabis Report" says Africa is in dire need of investment to take advantage of rising global cannabis demand. "Africa is lacking the infrastructure and facilities necessary for cannabis production. As such, corporate social responsibility (providing much-needed infrastructure, or supporting local workers) is of paramount importance for foreign investors and producers looking to set up in the region," it says.

SilverLeaf's joint CEO Cliff Giesenow reckons when this unregulated market is professionalised and legitimised, SA will become a "powerhouse green economy with one of the most conducive cannabis-growing climates in the world".

It seems the initial acquisition thrust by SilverLeaf will capitalise largely on the expertise of Van den Hoven and Giesenow rather than on cash placements.

Giesenow is the founder and owner of Leafolo (African herbal smoking blends) and a co-founder of Canna Trade Africa, the holding company of The GreenSide and CannaFoodsAfrica. Van den Hoven

has focused on the cannabis and hemp industries since 2016, and two years ago wrote a report on the commercial potential of these products for SA. He also started AfriCannaBiz and a cannabis-focused consulting company called Baobab International. Perhaps more significantly, Van der Hoven is the founder of cannabis industry advocacy organisation, the African Cannabis Industry Association.

According to the SilverLeaf prospectus, the investment team will look at qualifying companies that are "willing to embark on a journey in an incubated environment for up to six to nine months to develop confidence in each other and conduct a comprehensive hands-on due diligence process".

SilverLeaf will look to secure a "free carry" of up to 15% of the qualifying company's equity in return for services provided through the incubation. The purpose behind this strategy is to derisk the investments before they are presented to the investment committee by evaluating and working closely with each company before investment. ■

TRACKING THE WEED

Canopy Growth Corp share price (C\$) – monthly



Source: Infront