

Is Alimentation Couche-Tard Inc. Poised to Ride This Investing Supertrend?

Description

The election of Justin Trudeau in October brought a number of upcoming changes for Canada. One of the more controversial ones is Trudeau's pledge to legalize marijuana for adult users.

I'm on board with this decision. Frankly, I've never used marijuana and don't have the desire to do so in the future. I see little reason why I should intentionally alter my brain chemistry. It just doesn't seem like a good idea.

But at the same time, I know many people who regularly use tobacco and alcohol, two substances that everybody knows aren't good for you. And as cannabis usage has entered the mainstream, I'm constantly surprised at the number of people I know who semi-regularly use it.

In short, my attitude has changed. I now view marijuana usage much on the same level as tobacco or alcohol. I would never encourage someone to use any of these substances. But if they want to, I won't try to stop them.

I suspect many people reading this have a similar opinion. Others are at least occasional users, so we already know what their opinion is. These two groups together make up a substantial portion of Canada's population. Thus, it's easy to see why Trudeau is pushing for this.

Now that the legalization of pot in Canada seems all but done, many investors are thinking about ways they can profit from it. Is there still time to get in, or has all the easy money already been made?

Marijuana producers

One of the big issues surrounding investing in pot is the legitimacy of the whole industry.

Most of Canada's medical marijuana producers are heavy on promise and short on value. They typically have very little in physical assets and consistent profitability is nothing more than a pipe dream. They're serial issuers of shares, since many banks are reluctant to lend them any money. Huge price swings in their shares are common.

The biggest producer by far is **Canopy Growth Corp.** (TSXV:CGC). The company—which was formerly called Tweed Marijuana—owns four of the 26 different companies licensed to provide medical marijuana in Canada. It currently has 350,000 square feet in greenhouse cultivation area, along with a separate processing facility.

Its size has attracted considerable attention. Four different analysts cover the stock, and the market cap of the company is approaching \$300 million. That puts it as one of the largest companies on Canada's junior exchange.

Canopy is hardly a mature company. It has issued shares twice in 2015 to pay for various projects. And although it has made money in each of the last two quarters, I'm not convinced it's going to be

consistently profitable.

Perhaps there's a better way to get exposure to the sector.

Who's going to sell it?

These days, it's not particularly tough for a Canadian to get legal marijuana. All someone needs to do is to take a doctor's note down to a dispensary and they're in business.

If pot gets fully legalized, it's obvious the system will need to evolve. Most Canadians can't be bothered with dispensaries. After all, it's not like illegal marijuana is hard to get.

The government realizes this, and I think will respond in one natural way. The sale of marijuana in the future will look very close to the sale of tobacco today.

This means customers will go to convenience and grocery stores to get their fix. These stores already have the training and the know how to sell tobacco. Selling marijuana is a natural extension.

One company that will be poised to profit from this is **Alimentation Couche-Tard** (TSX:ATD.B). Couche-Tard has the distribution system needed to be able to easily carry pot at its more than 1,800 locations nationwide. And the addition of marijuana will help it overcome the decline in tobacco sales.

There's also the potential that one of the big tobacco companies gets big into marijuana when it officially becomes legal in Canada. There are all sorts of potential synergies there.

There's little doubt the cannabis industry has potential in Canada. But instead of investing in the producers, perhaps investors should look at the potential distributors.

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