

Where Does MedReleaf Corp. Place in Marijuana Stock Rankings?

Description

On June 8, **MedReleaf Corp.** (TSX:LEAF), another formidable force in the local marijuana space, went public. Its shares started trading on the main Toronto Stock Exchange (TSX).

Although there wasn't much hype to the IPO due to low and waning investor interest in the cannabis sector, and the stock commenced trading at a massive discount to the IPO price of \$9.50 a share, the stock managed to save face; it closed near its IPO debut price.

However, since MedReleaf is a new kid on the public market, it's natural for investors to wonder what position this new marijuana company should take in the sector's rankings.

Does it perform at par with or better than **Canopy Growth Corp.** ([TSX:WEED](#))? Is it any better than **Aphria Inc.** (TSX:APH), one of the industry's few profitable and methodical strategists? Does it beat the industry's popular, aggressive rising star, **Aurora Cannabis Inc.** (TSXV:ACB)?

Does it offer any unique investment return prospects compared to all the other publicly listed incumbents?

This newly listed marijuana stock could disrupt the competitors' market share in a big way over the next few months.

Current market position

MedReleaf is one of the early licensed producers of dried cannabis and cannabis oil. Since receiving its licence to sell dried cannabis in February 2014, the company has had a clear first-mover advantage over Aphria (licensed November 2014) and Aurora Cannabis, which got licensed in November 2015.

It's not easy to judge who had the most time to capture the medical marijuana market between MedReleaf and Canopy, as the latter is now a group of several licensed producers, with Mettrum Health Corp. being licensed earlier in November 2013; however, MedReleaf has beaten Canopy on revenue generation.

MedReleaf generated \$29.979 million in last nine months of 2017, while Canopy managed \$25.234 million group revenue for the same period. I estimate Aphria to have generated just above \$11 million in revenue for the period. Aurora's revenue was quite close to Aphria's at \$8.395 million.

MedReleaf commanded about 19% of the local medical cannabis market share in 2016, but with the fast rate at which Aurora and other small players are growing, it's hard to say whether it is still in the lead.

Most noteworthy, MedReleaf's product offerings are currently priced at a premium. In the Lift 2016 Canadian Cannabis Awards, MedReleaf beat the three competitors in three of the five dried cannabis strains. If the company manages to retain customer loyalty, it could command the medical marijuana

niche going forward.

However, Canopy led in both cannabis oil categories. In fact, Canopy took all three places in the Top CBD Cannabis Oil category, and Mettrum, a Canopy-group company, took second place in the Top THC Cannabis Oil category, ahead of Tilray and Canna Farms.

Aurora recently obtained its cannabis oils licence, so things may change in this year's awards.

Productive capacity

MedReleaf has been cautious in growing productive capacity, waiting for demand to justify further capacity investment. It has therefore performed dismally in productive capacity growth. It has been overtaken, even by Aurora.

The company still produces from a 55,000-square-foot Markham facility and has recently started making efforts to expand in this critical area by investing in a new 210,596-square-foot Bradford facility. The company has decided to list publicly to raise growth capital, and it may already be catching up with its competitors.

By the end of 2018, MedReleaf will probably have 265,000-square-foot production facility space with a potential capacity to produce 35,000 kilos of dried marijuana.

That's too small a capacity as compared to Aphria, which may have a 1,000,000-square-foot facility capable of producing 75,000 kilos of dried product, and Aurora, which will likely boast 895,000-square-feet of productive space, producing about 109,000 kilos of dried cannabis.

I think Canopy will still be in the lead on productive capacity as it has entered a memorandum of understanding with the **Goldman Group**. Goldman Group will purchase and build facilities and lease these to Canopy on a cost-plus basis. This contracted capacity will add to Canopy's possible 980,000-square-foot facilities going into 2018.

Quality control

MedReleaf is the only ISO certified marijuana producer. It meets higher international quality production standards, and the company is confident it will receive another high standard international certification soon — the ICH Good Manufacturing Practices Certification (GMP) for its Markham facility.

While that validates its claims for premium quality products, its competitors have their own quality control standards that seem to suffice for now. Aurora even made an arrangement with Anandia Labs for quality assurance.

Canopy probably already has this certification for its Tweed operations as only GMP certified marijuana products are allowed into Germany. Canopy is exporting Tweed branded products through MedCann GmbH Pharma and Nutraceuticals to Germany.

Investor takeaway

MedReleaf is profitable right now, but that may be because it wasn't making as massive investments as Canopy and Aurora in expanding productive capacity.

The company commands a greater medical cannabis market share, but things may change rapidly with recreational marijuana legalization, as the company with the greatest supply capacity will be the winner.

As of now, it doesn't seem like MedReleaf is well prepared for a commanding position in a broader recreational marijuana market. It may lose the lead very quickly to the aggressive underdogs.

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Date

2025/09/06

Date Created

2017/06/15

Author

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