

Are Canadian Marijuana Stocks Value Plays Right Now?

Description

It appears that the initial hype surrounding Canadian marijuana stocks is fading as **Canopy Growth Corp.** ([TSX:WEED](#)), **Aurora Cannabis Inc.** ([TSX:ACB](#)), **Aphria Inc.** (TSX:APH), and **MedReLeaf Corp.** (TSX:LEAF) prepare for nationwide legalization, which is likely in the cards sometime over the next two years. Although trading volumes have dropped for all marijuana stocks, investors should still realize that huge amounts of volatility are likely on the horizon as we move closer to legalization day.

Marijuana stocks are not for the faint of heart, and investors who'd bought shares near their peak probably learned this the hard way. Many marijuana stocks are starting to see green again after a brutal first half of the year. Canopy nearly lost half of its value from peak to trough as shares nosedived following a series of negative headlines.

Are marijuana stocks really considered "value stocks" at this point?

Marijuana stocks are definitely cheaper than they were earlier in the year, and value-conscious investors who were patient enough to wait it out this year have been rewarded with a much better entry point. But just because shares plunged by a substantial amount doesn't mean they're value plays. Such stocks are still extremely speculative stocks that could halve again as easily as they could double. Don't be tricked by the silence in marijuana stocks lately; there's a really good chance that the Canadian marijuana scene could heat up in the months leading up to and following legalization day.

Many pundits believe that the demand for recreational marijuana will surge following legalization day. Although the government is introducing a new tax which may make the drug more expensive to use, the average user will most likely opt for the legalized variety over the black market. Analysts at **Canaccord Genuity** estimate that marijuana prices will be in the \$8-per-gram range until as long as 2020. After this date, the average price per gram is expected to plummet to as low as \$7 per gram by about 2024 once supply and demand are balanced.

What does this all mean for marijuana investors right now?

Current marijuana producers are going to make a killing over the medium term, since demand is likely to outpace supply, but over the next few years, we're likely to see a tonne of new marijuana producers pop up on the TSX.

After legalization, the government is likely to grant many more production licences, and the scarcity premium on current Canadian marijuana producers is likely to diminish, like it has with Canopy; the company went from being the lone pot stock on the TSX to one of a few options for marijuana investors.

Bottom line

Sure, marijuana stocks are cheaper now, and demand is likely to overwhelm all Canadian marijuana companies in the medium term, but over the long term, the current producers will likely see competition

jump in to steal their slice of the pie.

If you're keen on investing in marijuana stocks still, then your best bet would be to own shares of an efficient company that you believe has the best management team that will be able to adapt to an increase in competition.

Are marijuana stocks value plays right now?

Not necessarily. Marijuana stocks are still really risky right now, and no margin of safety is present, as you'd expect with a typical value stock.

Stay smart. Stay hungry. Stay Foolish.

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2. TSX:WEED (Canopy Growth)

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