



3 Big Opportunities for MedReleaf Corp.

Description

The entry of medical marijuana producer **MedReleaf Corp.** (TSX:LEAF) into Canada's hotly contested marijuana market has been tumultuous to say the least.

On May 30, 2017, the company announced it had closed the deal for its initial public offering (IPO) which would see the company sell 10.6 million units of its common stock in exchange for \$9.50 per share, or total proceeds of \$101 million.

Unfortunately for those who snapped up the shares early in the IPO, the stock flopped hard when it finally hit the market on June 7, falling 22% to close at \$7.41.

The MedReleaf IPO was, in fact, the worst IPO to hit the market in nearly 16 years, when comparing the company to those of a comparable size.

After a period of "euphoria" and soaring asset prices, it seems that a certain level of fear and trepidation have finally hit marijuana stocks less than a year before Canada is expected to legalize the drug.

Is it all for naught?

Here are the top three reasons why investors shouldn't be so quick to turn a blind eye to MedReleaf.

Huge market potential

In case you haven't heard by now, the potential implications of legalized marijuana are actually massive.

A report released by audit and accounting firm Deloitte that surveyed over 5,000 Canadians suggested that the size of the marijuana market could reach upwards of \$5 billion in just a few short years after legislation is passed. And that's just considering retail sales of the plant itself.

Keep in mind that during 2015 and 2016, MedReleaf reported it had market share of between 16% and

20% of total Canadian volume.

While there is still a lot to be sorted out in terms of how licences will be awarded and how the drug will be sold and distributed, if MedReleaf ends up emerging as a major player in this newly minted industry, it could mean annual sales some multiple higher than what the company has today.

Enjoying the first-mover advantage

Nobel Prize-winning economist John Nash first proposed the theory of a “first-mover’s advantage” which suggested that, at least in a marketing sense, the first participant to market would have a lasting competitive advantage.

MedReleaf is the perfect example of this. It already has a licence to grow marijuana for medicinal purposes.

It stands to reason that when pot is legalized in Canada sometime in July next year, MedReleaf will hold the distinct advantage of already having a licence granted by the federal government and customer and brand recognition from those who are already familiar with the company’s product.

Providing a premium product

At the recent Canadian Cannabis Awards, a contest voted on by attendees, MedReleaf won first place for Top Sativa (Luminarium), first place for Top High-CBD (Avidekel); and third place for Top Hybrid (Midnight).

The fact that these awards were handed out by, essentially, the “voting public” speaks volumes to the quality of MedReleaf’s product and to how the company has managed to control nearly a fifth of the Canadian medicinal market.

Whether this will translate into future profits remains to be seen, but it certainly creates an opportunity for the company to cash in on, provided it plays its cards right.

Does it make a good buy?

MedReleaf’s IPO couldn’t have been timed worse. It came to market just as marijuana stocks were starting to twist in the wind.

But investors who don’t already own shares in this company probably shouldn’t view the market’s reaction as an isolated event specific to MedReleaf.

After all, **Canopy Growth Corp.** ([TSX:WEED](#)), widely regarded as the market leader, has seen its value decline by 38% since the start of 2017.

There’s still a lot to like about MedReleaf.

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Date

2025/09/10

Date Created

2017/07/28

Author

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