

Should Investors in Cannabis Stocks Be Happy About Ontario Controlling Sales?

Description

The Ontario government recently announced that it would launch cannabis stores as a subsidiary of the Liquor Control Board of Ontario, which brought mixed reactions from citizens and private retailers. Like other provinces, Ontario decided to reach out to citizens to obtain feedback on how to proceed with cannabis legalization. The government did so in the form of an online survey, which did not reveal a consensus among citizens over public or private sale and distribution.

Ultimately, the government decided to take over, which drew the ire of some advocates for a private approach to sales and from dispensaries, which will now be forced to shut down without hope for future legitimacy. Other provinces are expected to unveil similar plans in the upcoming weeks and months, meaning that public control of cannabis sales and distribution will likely be common across the board.

Shares of **Canopy Growth Corp.** ([TSX:WEED](#)) increased 1.89% on the day of the news; **Aphria Inc.** (TSX:APH) stock grew 1.35%; and **Aurora Cannabis Inc.** ([TSX:ACB](#)) was up 2.81%.

The news may come as a relief for investors in cannabis stocks. When provinces began deliberation, it appeared that leaders could push for delays to legalization coming in 2018. Ontario coming out with this plan so soon after deliberations should ease some of those concerns, but production will still be an issue.

Advocates of control in the private sector have warned that the government may be underestimating demand in the industry — demand that will not only stretch the limits of production for growers like Aphria, Canopy, and Aurora, but also the prices put out by respective governments. New stores, a unionized workforce, and a revolutionary rollout will drive up operating costs and likely the base price of the product. Some are warning that this could lead customers back into the arms of black market sellers if the government fails to deliver early on.

Ontario will open 40 stores by July 2018, and the province is aiming for at least 80 to be operating by the summer of 2019. Store openings will also be contingent upon companies meeting production to satisfy demand.

The news may come as a downer for those who were anxious for the kind of inventive, entrepreneurial rollout that was seen in Washington State and Colorado in the U.S. Regardless, it means that the industry is all but certain to avoid the delay warned by some provinces.

The government jumping into the market is still likely to be messy. Canopy has warned that demand may be much higher than expected and is preparing by ramping up capacity. Aphria is an attractive target as well as recent financial statements have shown that it managed to dramatically cut production costs below those of its competitors. Aurora, which often boasts that it is building the largest cannabis growing facility in Canada, is also a great target.

The announcement comes as a disappointment for those who were interested to see a new private market emerge and evolve in Ontario, but this government-controlled monopoly will be lucrative and

extremely profitable. The marijuana companies above stand to benefit in a big way, so now is as good a time to buy.

CATEGORY

1. Investing

TICKERS GLOBAL

1. TSX:ACB (Aurora Cannabis)
2. TSX:WEED (Canopy Growth)

PARTNER-FEEDS

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Date

2025/07/27

Date Created

2017/09/14

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