Up 15% This Month, Could MedReleaf Corp. Be the Next Big Marijuana Stock?

Description

MedReleaf Corp. (TSX:LEAF) came to market with its initial public offering on June 7 and closed its first day of trading at $7.40 per share.

Shares spiked in the days that followed — at one point reaching an all-time high of $9.20 per share. After retracing some of those gains, shares are on the verge of challenging that all-time mark — up a little more than 15% since the start of the month.

The recent surge makes MedReleaf the hottest marijuana stock in Canada at the moment, outpacing gains in **Aphria Inc.** (TSX:APH), up 4%, **Aurora Cannabis Inc.** (TSX:ACB), up 5%, and even fan-favourite **Canopy Growth Corp.** (TSX:WEED), which is up 12% over the same period.

With recreational marijuana legalization expected to be less than a year away, investors are getting more anxious to pick what will be the eventual winners of the newly minted cannabis market.

Proposed distribution model will benefit medical marijuana producers like MedReleaf

Late last week, the Ontario government announced that once legalized, cannabis will be sold to recreational users through 150 LCBO-run stores and a government-run website.

In announcing the news, provincial regulators said they hoped the newly released distribution model will be followed by the other Canadian provinces.

Marijuana sales will be restricted to those older than 19, as is the case with alcohol sales in Ontario, while consumption will be limited to private homes.

That means it will remain illegal to smoke marijuana in any public space, including parks and outdoor venues, as well as at workplaces and in motor vehicles.

While that news may be a bit of a downer for pot enthusiasts who had hoped they could enjoy their pot outdoors in parks and recreational areas, there is good news for companies like MedReleaf, which is already operating with a medical marijuana licence.

That's because the LCBO-run stores will be required to source their product from only those marijuana producers licensed by Health Canada.

MedReleaf already has a licence and a leading market share

In MedReleaf's August investor presentation, the company stated that it holds two of only 54 medical marijuana licences.

But what’s more compelling is that among those 54 licence holders, MedReleaf holds an impressive 18% market share.

A report by accounting and auditing firm Deloitte and Touche suggests sales of the marijuana plant alone could reach the $5 billion mark by the end of the decade.

If MedReleaf can maintain — or even improve — the success it has enjoyed to date, it stands to be one of the leaders of the recreational cannabis market as a 18% market share would work out to just shy of $1 billion in annual sales.

That figure is exponentially higher than the $40 million in sales the company registered in fiscal year 2017.

Solid execution by management so far. Can they keep it up?

Beyond securing access to distribution channels and enjoying a leading market share, there are encouraging signs that management is executing successfully in becoming a profitable pot producer.

In the second quarter, the company brought its cash costs per gram down to $1.50 from $2.75 in the first quarter and $3.25 in the year-ago period.

Much has been made of competitor Aphria’s low-cost model which has translated into profits, but the recent quarter suggests that MedReleaf is already on par with Aphria.

Add to that access to government-controlled distribution and a leading market share, and you can make a very strong case that MedReleaf has found a winning business model at exactly the right time.

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