

A Memorable Week for This Top Marijuana Stock's Investors

Description

MedReleaf Corp.'s (TSX:LEAF) share price has significantly outperformed most of its peers since September 5, while the first week of October has proven to be the most memorable week for this newly listed cannabis stock's investors.

For the first time ever, this week, MedReleaf's share price closed above its initial public offering (IPO) price of \$9.50, as the stock hit an all-time high of \$9.88 yesterday, allowing IPO investors to see a green balance for the first time on their MedReleaf investment.

MedReleaf had one of the worst post-IPO price performance of any marijuana listing in the world when the stock opened 21% lower than its IPO price at \$7.50 on June 7 and hit an all-time low of \$6.81 the same day. This poor performance has been largely blamed on low and declining investor interest in the marijuana sector as a whole.

Although the share price attempted a quick recovery to close at \$9.49 on June 12, a continuous slide back to a low of \$7.45 on August 10 was really painful for IPO subscribers, and a great number of them could have offloaded their stakes at substantial losses.

The story is, of course, not the same for those who picked up shares on the dip around that low price range during August.

MedReleaf shares have gained 23% over five weeks in a protracted rally since September 1, 2017 to date.

Will the rally continue?

There is a significant return of positive investor sentiment to the marijuana sector in general, and there have recently been some real positives in MedReleaf's financial performance.

The current recreational marijuana legalization efforts are bringing clarity to the sector's "glorious" sales boom by July 2018, as the provinces are each announcing some frameworks that investors believe can be very much conducive to exponential growth in the marijuana sector.

Moreover, MedReleaf has recently arrested the quarter-on-quarter revenue declines since going public. MedReleaf managed to grow its revenue marginally in the quarter ended June 30 to register 19% growth from a comparable quarter last year.

The latest product launch on October 4 could be another growth driver going into 2018. MedReleaf has launched a topical cream that can be mixed with cannabis oil and applied to affected areas by patients at home, and this new product is already available for purchase.

Interestingly, Ontario legalization framework and the federal government's proposed tax policy, which may charge \$1 a gram for products priced below \$10 and a 10% tax for marijuana items priced beyond

the \$10 mark, seem to favour low-cost producers.

MedReleaf is one of the leading lowest-cost producers in the local industry.

Most encouraging is the fact that MedReleaf's operating expenses have not ballooned as much as feared after it recently embarked on a productive capacity expansion program. Although margins have declined, the company is much better off on cost management than some of its closest rivals.

I believe MedReleaf may manage to secure a contract in the Germany tender by year-end and boost its average price per gram — selling higher-priced marijuana to Europe, which could boost the bottom-line margins going forward.

However, I'm not so sure how great a promise the company's latest entry into Brazil could be since management made an initial sale to a single individual. More efforts towards partnerships or a local corporate presence may be necessary to exponentially grow market share in the budding South American market.

MedReleaf stock may continue to soar in the near term.

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