Are Canada's Licensed Marijuana Producers at Risk of Becoming Delisted From the TSX?

Description

Marijuana stocks were down sharply in Tuesday's trading as Toronto Stock Exchange operator **TMX Group Limited** (TSX:X) suggested the exchange is going to start cracking down on marijuana producers engaging in illegal activities south of the border.

"Based on our quality control and standards that we have set for our market, our rules say that you cannot be in violation of applicable laws and regulations in the jurisdictions in which you run your business," said Ungad Chadda, president of capital formation, equity capital markets.

The issue stems from the fact that U.S. medicinal marijuana companies, which are allowed to operate according to state law, are still in violation with U.S. federal law.

Aphria Inc. (TSX:APH) suffered outsized losses, down 13.4% yesterday versus peers **Canopy Growth Corp.** (TSX:WEED) and **Aurora Cannabis Inc.** (TSX:ACB), which were down 4.8% and 3.9%, respectively. This is largely because of Aphria's joint venture with partner Liberty Health Sciences, which owns a medical marijuana licence from Florida state.

While the worst-case scenario could see U.S. authorities seize the assets of any company in violation of U.S. federal law, the tone on Tuesday was actually rather upbeat, suggesting that the announcement would bring forth greater clarity for investors on the scope of licensed marijuana producers operations south of the border.

Vic Neufeld, CEO of Aphria, said in response to the TMX Group announcement, "We believe the new CSA staff notice provides a very balanced framework for the Canadian capital markets and we welcome the additional guidance on specific and enhanced disclosure requirements for U.S. marijuana-related activities as they pertain to the medical marijuana industry in Canada."

He went on to say, "We believe the new disclosure framework including related risks will provide greater investor protection and increased credibility to our industry."

Since being listed on the TSX Venture exchange in 2015, Aphria has raised over $216 million in capital from investors, so it would not be good business for either the TMX Group or Aphria to risk losing its listed status.

What's also noteworthy is that Aphria's investment in Liberty Health Science occurred while the company was listed on TMX's exchange and was fully disclosed at the time.

No reason to panic

Naturally, a headline with the words "delisting" in the title is sure to cause panic in investors, but there is plenty of evidence to suggest investors needn't bail on marijuana stocks.

TMX Group's smaller rival, the Canadian Securities Exchange (CSE), has said publicly it will welcome marijuana companies with U.S. interests and is already in the process of recruiting them.

Twelve of the 50 marijuana companies listed on the CSE have U.S. exposure, according to the exchange's CEO Richard Carleton.

This could be a good opportunity to buy on the dip

Tuesday's news could provide a solid buying opportunity for investors who are looking to participate in Canada's legalization of recreational marijuana, expected next July.

Prior to the TSX announcement, marijuana stocks had risen sharply in September on the back of greater clarity from the federal and provincial government in terms of how marijuana will be regulated and sold.

Particularly, Aphria, down 13.4% on what appears to be good news, could be one of the better opportunities in the space, with shares now below the $7 mark.

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