



3 Reasons Marijuana Stocks Could Explode

Description

The past few weeks have been very exciting for investors in the marijuana industry, as shares of **Aphria Inc.** (TSX:APH) declined substantially following the quarterly earnings release. For those who continue to believe in the growth story of the industry, the good news is that the opportunity for large profits will be upon us shortly. With legalization coming in July 2018, the Canadian government has taken steps to work with provinces to better distribute the product, providing clarity on the relationships they will have with suppliers along the way.

The first catalyst for large increases in shares of marijuana producers are the bought deals that were recently announced. Both Aphria and **Aurora Cannabis Inc.** ([TSX:ACB](#)) announced they would be going to market for secondary offerings, which were already snapped up by investors in the form of a bought deal. For those not in the know, a bought deal means that the company facilitating the transaction guarantees a specific price for a specific number of shares. Essentially, it means that there is strong demand.

With the money from these secondary offering, each company will be able to build additional growing facilities, which will generate more revenue and profit down the road. Essentially, each company can only sell what it grows. Currently, the best estimates that are available to the investing public are that Canadian consumers will spend between \$5 billion and \$10 billion on marijuana per year. This is in addition to the equipment that is bought to assist in consuming the substance.

The second catalyst to drive share prices higher will be the incredible increase in revenues. Over the past full fiscal year, the total revenues from **Canopy Growth Corp.** ([TSX:WEED](#)), Aphria, and Aurora were approximately \$80 million, which is a substantial increase from the year earlier. Given the increase in capacity and the improving knowledge of each company, investors can expect a much more efficient growing process as time moves forward.

The final catalyst for investors may be the government. Given the approach is to price the product at an attractive enough price to limit competition from the black market, the attractiveness of the product may be great enough that many consumers seeking to enjoy their weekends will opt for marijuana instead of purchasing beer or wine. Although the government will continue to take in tax revenues

either way, the money generated by the sale of marijuana will greatly benefit shareholders of this industry at the expense of the spirits industry.

With a number of potential catalysts that could send shares of marijuana producers higher, investors need not worry about the long-term potential of the industry; instead, simply remaining patient will be the key.

CATEGORY

1. Investing

TICKERS GLOBAL

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

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1. Msn
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