



Are Cannabis Stocks Poised for a Pre-Legalization Run?

Description

The top Canadian cannabis producers surged upward on March 5, as we look ahead to one more season before legal recreational cannabis becomes a reality. In February, we learned that legalization would be [delayed](#) until the late summer, which allows more time for investors to survey the current market as we look ahead to the roll out.

On February 28, Beacon Securities Limited, a Toronto-based investment banking firm, released an update to clients in which it predicted that the recent retreat in cannabis stocks could be reaching an end. The note goes on to state, "... the fact that the average stock is down 35% (median down 36%) in the 49 days since the sector peaked suggests to us that we are likely much closer to the end of this pullback than the beginning."

In the medium term, Beacon Securities has projected "a broad-based run up" in cannabis stocks in the lead up to recreational legalization, which is slated for August at the earliest. However, it has projected that [regulatory movement in the United States](#) will shine more light on the sector going forward. In the long term, the firm has raised concerns about "the quantity of planned supply," as the race for supply agreements continues.

Aurora Cannabis Inc. ([TSX:ACB](#)), now the largest producer in Canada, rose 5.93% on March 5. On February 28, Aurora Cannabis announced final regulatory approval for its acquisition of **CanniMed Therapeutics Inc.**, which completed a busy string of weeks for the company. It also signed a medical cannabis supply agreement with Shoppers Drug Mart and acquired a nearly 20% stake in **Liquor Stores N.A. Ltd**, which gives Aurora a sizable footprint to sell its product in Albertan stores. Aurora stock is up 17.3% in 2018 thus far.

Canopy Growth Corp. ([TSX:WEED](#)) surged 11.6% on March 5, which put its stock into the black for 2018. Canopy recently announced that it had looked into possibly dual-listing on the NASDAQ stock exchange.

After settling a record amount of supply agreements and branching into U.S. distribution channels, Canopy is eyeing greater U.S. visibility. Interest from U.S. investors, which is steadily increasing, even

as the country wrestles with its regulatory issues on a state and national level, could have a marked impact on Canopy's stock price. The listing could happen as soon as the second quarter of 2018.

MedReleaf Corp. (TSX:LEAF) stock rose 3.02% on March 5. Shares are still down 3.4% in 2018 thus far. MedReleaf recently announced that it had signed an agreement to purchase one million square feet of greenhouse facilities in Exeter, Ontario, in addition to 95 acres of neighbouring land. The company projects that this will provide production capacity of up to 105,000 kilograms of cannabis per year and should begin harvesting by late 2018.

Of these three, Canopy is likely to generate the most interest, considering its ambitions to list south of the border. Investors that took profits in January following the late 2017 surge may want to consider re-entry in the coming weeks as we look ahead to legalization.

CATEGORY

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2. TSX:WEED (Canopy Growth)

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