

What Oregon's Pot Problems Mean for Cannabis Investors in Canada

Description

Many cannabis companies are eagerly awaiting the day when pot is legalized in Canada and are expecting that demand will send their sales skyrocketing soon afterward. The allure of getting into an industry with minimal barriers where just about anyone can start up a company and grow has resulted in many cannabis companies competing for a piece of the pie.

What could go wrong?

The danger in all of this is that there is still a very formidable black market present that won't go away just because pot is legal. After all, many users are very anti-corporation and may not want to contribute tax dollars to a Canadian government that now wants to take advantage of an industry it has demonized for years.

The other problem is that with all the growing competition, there could be too much pot and not enough customers.

The Oregon example

In Oregon, recreational pot has been legal since 2015, and the state has seen lots of activity in the industry since that time. With many people and companies looking to sell pot, that has led to an excess of supply that has sent the price of weed down significantly. In fewer than three years, the price per gram was cut in half, according to the Oregon Office of Economic Analysis.

According the Oregon.gov website, the state has approved nearly 1,900 licences as of May 18. With over 4.1 million people in the state, that's approximately one business licence to sell pot for every 2,180 people that live in Oregon. And we could still see more licences being issued as hype in the industry isn't slowing down anytime soon.

The problem this has caused for cannabis companies in Oregon is that some have just chosen to shut down and wait for pot to be legalized at the federal level, but that too could result in an even bigger influx of producers.

Why should this matter to Canadian investors?

The Oregon example may not be entirely comparable to Canada. After all, in Canada, when pot gets legalized, it will be at the federal level. The suspicion is that Oregon's excess pot is being shipped out to other states where it is still illegal to sell marijuana. In that situation, Oregon is a more complex problem, but the key issue is the same: overproduction, and the risk that prices will come down hard.

If that happens, we could see financials get even weaker in an industry where profits have already been scarce. While **Aurora Cannabis Inc.** ([TSX:ACB](#)) is excited at all the capacity it will have with the [acquisition](#) of **MedReleaf Corp.** ([TSX:LEAF](#)), the problem could be finding customers to sell it to, or selling it at lower-than-expected prices. Even low-cost producer **Aphria Inc.** ([TSX:APH](#)) might need to

bring down its cost per gram even more if competition erodes profitability.

Cannabis companies may have to look at strategies outside the country — something we've seen **Canopy Growth Corp.** ([TSX:WEED](#)) and others do with [international](#) expansion.

There will be a lot of growth in the industry when marijuana becomes legalized, but investors should be aware of the risks, as the industry is already starting to get crowded.

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