



Legal Cannabis Is Right Around the Corner: Here Is Why You Should Be More Cautious Than Ever

Description

On June 19, Canadian investors received the [news](#) that legal recreational cannabis would become a reality. Prime Minister Justin Trudeau said that the date of legalization will be October 17, 2018. This was much later than the original target date set for some time in July, but it is still worth breathing a sigh of relief.

Investors responded to the news with some degree of enthusiasm. **Aurora Cannabis Inc.** ([TSX:ACB](#)) and **Canopy Growth Corp.** ([TSX:WEED](#))(NYSE:CGC), the top two producers in Canada, rose to highs not seen since March. Canopy Growth shot up to an all-time high of \$48.72.

Naturally, there are still big questions about how cannabis sales will shake out in the provinces. Ontario is a question mark with the coming to power of Doug Ford and the Progressive Conservatives in a decisive majority government. Ford seemed to sympathize with [private sales](#) on the campaign trail, but quickly backpedaled. Most recently, Ford has said that he will pursue consultations with municipalities and stakeholders over cannabis sales.

No matter what system provinces settle on, it is going to take time for the industry to ramp up. Producers have had time to prepare, but there will inevitably be growing pains and consolidation. Aurora and Canopy represent the biggest and safest bets, but valuations remain high as we look ahead to legalization.

Canopy released its fiscal 2018 fourth-quarter and full-year results on June 27. The company posted yet another quarter of record sales in Germany of \$2.3 million. Canopy also sold a record 2,528 kilograms and kilogram equivalents at an average sales price of \$8.43 in fiscal 2018 Q4. Revenues rose 55% year over year to \$22.8 million.

Record sales were overshadowed to some extent by a net loss attributable to shareholders of \$61.5 million. This loss was largely due to a 149% jump in operating expenses, as Canopy is racing to prepare itself for legalization. Canopy expects to see a big boost in revenue by the second quarter of fiscal 2019.

This week, Aurora Cannabis signed a loan deal worth up to \$250 million with **Bank of Montreal** ([TSX:BMO](#))([NYSE:BMO](#)). BMO has been an early bird in cannabis investment. Under this agreement, BMO will provide Aurora with a \$150 million term loan and a \$50 million revolving credit facility. Aurora can request a \$45 increase to the term loan, and BMO will also provide an additional \$5 million in debt instruments.

Aurora has attracted its fair share of skeptics following what was viewed as a massive overpay in the acquisition of Cannimed Therapeutics and now **MedReleaf Corp.** The company has soared to a \$5 billion valuation in a very short period of time. Its production capacity is impressive, but it will have a lot to prove during the roll out.

Caution is the best policy

Cannabis investment has made many fortunes before the recreational industry has even kicked off in Canada. Investors should take care not to lose theirs, as producers will now enter a “show-me” phase that could make or break the high stock prices over the next year. The top producers remain a long-term hold, but investors should expect fluctuations in this period of transition.

CATEGORY

1. Investing

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1. NASDAQ:CGC (Canopy Growth)
2. NYSE:BMO (Bank of Montreal)
3. TSX:ACB (Aurora Cannabis)
4. TSX:BMO (Bank Of Montreal)
5. TSX:WEED (Canopy Growth)

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Author
aocallaghan

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