

2 Very Real and Very Serious Risk Factors That Will Hurt Canopy Growth (TSX:WEED) Stock and Aphria (TSX:APH) Stock Post-Legalization

Description

Investors who are already invested in Canada's up-and-coming cannabis sector, or those who are considering an investment currently, will most certainly have looked at **Canopy Growth Corp.** ([TSX:WEED](#))(NYSE:CGC) and **Aphria Inc.** (TSX:APH), two of the country's biggest producers by market capitalization.

The decision of which company to pick as a long-term investment has many sticking to the big-name players in Canadian cannabis, and while this strategy makes sense on the surface, I'm going to touch on three risk factors I see with the cannabis space that could provide some serious headwinds post-legalization for investors.

A supply glut will take place (it's not a maybe)

The debate around how much legal pot Canadians choose to consume is not really much of a debate, in my opinion. Data from 100 of the top facilities that are either currently producing or will have supply online in the near term show that these facilities have capacity to produce approximately 1.8 million kg of cannabis per year by 2020. Current demand has been estimated at below 800,000 kg, with the potential for an increase to 900,000 kg per year by 2020 if even the most bullish expectations take hold.

In other words, current estimates are that two times the current forecasted demand for weed will be supplied by the market within a year and a half. Get out your economics 101 textbook and tell me how this will turn out in terms of pricing and profitability at the producer level.

I wouldn't want to be a price taker in an environment where a supply glut is taking hold — the government may need to step in and create [supply management](#) in this sector as well!

The black market is alive and well (and won't go away any time soon)

Approximately 90% of the country's cannabis is sold on the [black market](#), despite having a medical cannabis market, which operates, in many ways, as a semi-legalized system. Go to the doctor, complain of headaches, anxiety or back pain, and a prescription really isn't that hard to get.

The fact that 90% of Canadians choose the illicit route has largely been linked to the fact that medical marijuana patients can simply get their product cheaper from their dealer than in their local dispensary; with dispensaries being cracked down on more and more due to government intervention in this sector (don't want those cash-only dispensaries to take away government taxable revenue), the likelihood that the entire 90% of folks who buy pot off the street will suddenly pay \$10 a gram or more for the legal stuff really doesn't make any sense.

The focus of many cannabis producers and those in the media on "pot aficionados" highlights the fact that many of these people simply don't understand where the volume really is, or where heavy users

buy their weed. Give an organized crime syndicate a reason to lower their costs by \$1 a gram to become even more attractive, and they will — it's economics. Even criminals know how supply and demand works.

Stay Foolish, my friends.

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