

## Will Online Cannabis Sales Be a Success in Ontario?

### Description

Investors are a little over a month away from the beginning of recreational cannabis legalization across Canada. Legalization will trigger on October 17, 2018. In Ontario, Canada's largest province, cannabis will only be available for legal purchase online. That means that consumers will be unable to perform cash transactions for cannabis in the early months of legalization.

In July, the new Ontario PC government announced that it would pursue a [private model](#) for cannabis retail, mirroring the system that has been adopted in Alberta. On the surface this is a positive for investors.

Many of the top producers were pushing for at least some degree of private control going forward, and cannabis advocates were earning against handing over control to the public sector. However, the new Ford-led government has [yet to lay out](#) a concrete vision for wholesalers. The government set a date of April 1, 2019 for making wholesale cannabis available to consumers.

In the meantime, purchases will be made online through the Ontario Cannabis Store (OSC). This entity was originally supposed to be the sole wholesaler for cannabis before the Ford-led government made the switch to private.

As of the time of writing, the Ontario Cannabis Store has signed a supply agreement with 32 licensed cannabis producers. Investors and regular readers will recognize many of the big names.

**Canopy Growth Corp.** ([TSX:WEED](#))(TSX:CGC) and **Aurora Cannabis Inc.** ([TSX:ACB](#)) were both part of the original 26 that were brought on board. Canopy and Aurora are currently the largest cannabis producers in Canada and worldwide. Cannabis stocks have put together another huge run in the late summer.

Shares of Canopy have soared 79% over the past month as of late morning trading on September 13. The stock had turned in a flat performance for much of the year before a huge injection of cash courtesy of **Constellation Brands**. This has inspired renewed concerns that Canopy and others are overvalued heading into the legalization date.

Aurora stock has turned in a more muted performance in comparison – it is up 49% over the same one-month stretch. The company heaped praise on the Ontario government for its decision to go private back in July. Aurora is hoping to establish a stronger footprint in Ontario through its retail partner **Alcanna** going forward.

Currently the alcoholic beverage retailer has the bulk of its business located in western Canada, and following the announcement, it reportedly made inquiries into Ontario.

Although consumers will have to wait for wholesale availability, there will still be variety through the online store. Some experts are likening the new market to the wine industry, where consumers will test

many different strands instead of locking themselves into one brand. This may be good news for smaller producers in the short term, and these companies will look to ward off consolidation as demand skyrockets in the early months.

There are also concerns that the requirement to register online will allow the so-called “gray market” to flourish before legal wholesalers are brought into the fold next year. This may put a cap on online sales coming out of the gate.

## **CATEGORY**

1. Investing

## **TICKERS GLOBAL**

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

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1. Investing

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