

Ontario Just Dealt Canopy Growth Corp (TSX:WEED) a Big Blow to its Growth Prospects

Description

Ontario has seen a lot of change over the past year with respect to its plans for cannabis. Initially, the previous government opted for a very [restrictive](#), government-only model where it would've been difficult to see much growth.

However, under a new government, we saw a change from that model as recently-elected Premier Doug Ford has been open to private retailers, which made investors very bullish on the news.

Unfortunately, we've recently learned one important detail that will put a bit of a wrench into the plans for big producers like **Canopy Growth Corp** ([TSX:WEED](#))(NYSE:CGC).

While the province won't set a limit on the number of pot shops that will be allowed to operate within its borders, licensed producers will only be allowed to have a single location at a production facility.

This is still a better situation than a government-only model, but it is still not as good as companies would have been hoping for, as it limits their potential reach.

Why this is bad news for producers

Canopy Co-CEO Bruce Linton downplayed the news, saying that more stores would result in more places for the product to be sold, but if a third party is selling the cannabis, then there's no ability to control the process, experience, or branding. Canopy Growth will also be competing with many different growers for shelf space, making its ability to dominate market share very difficult given the [number of competitors](#).

With advertising being heavily restricted and companies having very limited options to promote their product, retail stores would have offered one way around that. Not only does this hurt a company's ability to promote all their products in one place, but its potential growth as well.

Many of the high valuations in the cannabis industry, including Canopy Growth's, are based on the assumption that sales will simply skyrocket and supply won't be able to keep up with demand.

Any wrinkle or hiccup that could cause those expectations to falter could have a devastating impact on the company's share price. And while cannabis as a whole might see sales rise, whether Canopy Growth will dominate the market in Ontario will be a separate issue.

Is the stock still a good buy today?

Canopy Growth's stock has been very volatile over recent weeks, and this news won't help make investors any more bullish on the stock. However, given that the company is focusing on expanding into other parts of the world, what Ontario decides to do is likely going to have a limited impact on the

big picture.

After all, Canopy Growth isn't in any worse position than its peers and will face the same challenges that they will.

But it all boils down to expectations, and that if it's unable to dominate the market share like it's expected to, investors may be left wondering why the stock is trading at such a big premium.

Given the question marks that still remain and the high price you'd have to pay to own the stock, this is not an investment I'd be making anytime soon.

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