



1 Day Away From Legalization: Is it Time to Hop Off the Cannabis Hype Train?

Description

Cannabis stocks were one of the lone bright spots as the TSX index finished another day in the red on October 15. The cannabis sector has been on fire since August. There is a wave of excitement in the air as the official date of recreational legalization is only one day away.

Canopy Growth ([TSX:WEED](#))(NYSE:CGC) stock surged 13.64% on October 15. Shares have climbed a stunning 95% over the past three months and the stock is up 147% in 2018 so far. Canopy Growth has [consistently stood tall](#) among the top producers due to its size, solid financials, and readiness for what is set to be a chaotic roll out.

Canopy Growth stock was also propelled by the announcement that the company had signed a deal to purchase Colorado-based hemp researcher Ebbu Inc. in a stock-and-cash deal worth more than \$425 million. The company has said that this deal will help its hemp and THC-rich cannabis genetic breeding program going forward.

Aurora Cannabis ([TSX:ACB](#)) stock shot up 9.92% on the same day. Shares have surged 76% over the past month and the stock is up 56% in 2018. Aurora has managed to significantly expand its footprint in 2018; it has [made waves](#) with the two largest acquisitions in the industry's history. There are concerns that the company has overextended itself. The company will have the opportunity to silence these critics over the course of the upcoming roll out. Aurora is also expected to be listed on the New York Stock Exchange by the end of the month.

Aphria (TSX:APH) stock moved up 4.13% on October 15. Shares are up 69% over the last three months. Aphria's performance has been muted in comparison to its peers, as the stock is only up 6.4% in 2018 so far. However, there is reason for major optimism at Aphria going forward. It has consistently come in below its peers in production cost effectiveness and its annual production rate is expected to reach 255,000 kilograms by May 2019. Compare this to 2,700 kilograms of product sold in the first half of 2018.

Cannabis producers will now enter the "show me" period as onlookers will get to determine how well Canada can execute legalization. Investors should keep in mind that there are still major concerns for

the broader industry. Early reports indicate that supply could quickly become an issue with retailers expected to see huge demand in the early weeks. Ontario, the most populous province in the country, may avoid the issue as it will only offer legal sales online until April 2019. There is speculation that the process for purchasing cannabis, which requires online identification, may deter prospective buyers.

The laws surrounding cannabis are also bound to cause some confusion early on. Some provincial governments have been openly hostile to legalization, as seen in Quebec with its draconian cannabis retail framework. This has the potential to put a cap on growth for an industry that is in such an early stage. Hopefully, Canadian producers and retailers will be able to learn and adapt to inefficiencies early on. Otherwise, it could be a long fall and winter for cannabis investors.

CATEGORY

1. Investing

TICKERS GLOBAL

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

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