



'Twas the Night Before Pot Legalization...

Description

'Twas the night before pot legalization, when all through the markets, not a creature was stirring, not even the bears; the stock purchases were made by investors with care, in hopes that riches would soon would be there.

The day all cannabis investors have been waiting for finally arrives tomorrow. October 17 has been circled in red for a number of months as the day recreational marijuana becomes legal. It's important to note, however, that not all provinces are on equal footing. Here is a quick breakdown of where recreational marijuana will be sold:

In Ontario, cannabis can only be purchase online through the LCBO-controlled Ontario Cannabis Store (OCS). Private retail stores will only begin operating in August of 2019. The province of B.C. is only expected to have one shop up and running tomorrow to complement government-controlled online sales. Alberta, Saskatchewan, Manitoba, Quebec, and the maritime provinces are all expected to have retail locations and online sales. The number of retail locations varies significantly by province.

The roll-out of retail stores is going to be a slow burn. As such, expect the majority of sales to take place through online sales channels.

Supply and demand

Depending on who you ask, there may or may not be supply shortages. **Canopy Growth** ([TSX:WEED](#)) (NYSE:CGC) CEO Bruce Linton expects demand in the first year to be approximately 300,000 kgs — a figure he expects the licensed produces are able to meet given expanded capacity. On the flip side, **Aphria's** (TSX:APH) chief executive Vic Neufeld warned of significant supply shortages. According to Neufeld, there are "supply chain issues abounding everywhere with every LP."

In the same breath, however, Neufeld stated that Aphria's supply shortage will be resolved in two to three months. It's a confusing time for cannabis investors. The true supply-and-demand situation is not yet known, and it may be weeks, if not months post legalization till it is.

There are many eye-catching headlines. An Ipsos poll claims a third of Canadians, or approximately

six million, who don't smoke, vape, or ingest marijuana now plan to try it thanks to legalization. Is this true? I certainly can't predict the future, nor can any analyst. As I [have professed before](#), the only certainty in the sector is uncertainty.

Where to invest?

The industry has too many players at the moment and not all will succeed. As such, the less-risky option would be to invest in [the major producers](#) such as Canopy Growth, Aphria, and **Aurora Cannabis** ([TSX:ACB](#)). All three are attracting big money that enables them to fund expanded production. They also are also at the forefront of industry consolidation.

In this respect, no one has been busier than Aurora Cannabis, which is buying up everything in sight. As a result, it now has the largest funded production capacity in the sector at 571,000 kgs.

A word of caution ,however, as valuation concerns remain. If the producers are having supply issues and don't have enough product to meet current demand, illegal pot buying will continue. It may also impact estimated fiscal 2019 revenues. All three are trading at double-digit times expected future revenues. This is very expensive. Should the companies come up short of revenue expectations, investors could see a significant pullback in shares.

Happy investing to all, and to all a good night.

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

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