

1 Month After Legalization: The Good and Bad for Cannabis in Canada

Description

A little over one month ago, recreational cannabis was [legalized](#) across Canada. Provinces have diverted when it comes to retail offerings, but the brick-and-mortar stores that were open on legalization day experienced huge volumes of consumers. Some investors may have been hoping for a post-legalization bump in cannabis stocks. They will have been disappointed until now.

Cannabis stocks have been hit hard over the past month. It's worth noting that legalization has coincided with one of the worst global stock sell-offs in years. The **Horizons Marijuana Life Sciences ETF (TSX:HMMJ)** has dropped 22% month over month. Those with long positions will have [grown used to turbulence](#) in this volatile sector by now.

Today we'll review the good and bad in the cannabis sector after the first month of legalization. Should investors in the top cannabis stocks be optimistic heading into 2019? Let's dive in.

The good

Demand has been sky-high in the opening weeks of legalization. Retailers were expecting high volumes, but the wave of enthusiasm has surprised store operators so far. Edmonton-based **Alcanna**, which is partially owned by **Aurora Cannabis (TSX:ACB)(NYSE:ACB)**, reported that its five Nova Cannabis stores pulled in \$1.3 million in sales in the first five days of legalization. Alcanna processed over 17,000 transactions during this period and sold over 68,000 individuals SKUs.

Aurora reported its fiscal 2019 first-quarter results this month. These results did not cover the initial rollout, but CEO Terry Booth said that the Aurora brand was seeing early success after legalization. Aurora has moved to aggressively establish a strong retail footprint in Alberta, which opted for private cannabis retail.

Top producers are quickly ramping up production for the beginning of the next calendar year. Aurora has projected that by the beginning of 2019, Aurora will have a production run rate in excess of 150,000 kilograms per annum. **Canopy Growth (TSX:WEED)(NYSE:CGC)** shares have dropped 16.9% week-over-week after it reported a larger Q2 loss on November 14. Canopy has also significantly ramped up production since legalization.

The bad

Supply issues have plagued retailers in the early goings, and consumers will be forced to contend with this reality until 2019. The retail frameworks in several key provinces has also come under scrutiny. The most notable critique came from Aurora CEO Terry Booth in a Las Vegas appearance last week.

Booth harshly criticized the rollout in Ontario and British Columbia and said that only Alberta and "perhaps Saskatchewan" had "gotten it right." In Ontario, the most populous province in Canada, the only way to purchase legal cannabis is through the online Ontario Cannabis Store (OSC). The site has

received extremely poor reviews from consumers in the opening month. An Ipsos poll revealed that only 60% of Ontarians were satisfied with the timing of their orders. Ontario will roll out brick-and-mortar retail stores in April 2019.

Of course, we also need to reflect on the performance of cannabis stocks over the past month. Aurora Cannabis has dropped 38% and Canopy Growth is down 29%. Valuations remain high even after this most recent dip. Early demand is encouraging, but the potential size of the market is still murky as we look ahead to 2019.

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