



Should You Buy Marijuana Stocks Now That Pot Shops Are Legal in Ontario??

Description

It's official: brick-and-mortar cannabis shops are legal in Ontario.

As of Monday, Ontario's first marijuana shops are open for business—and so far, business is booming. According to early reports, eager cannabis buyers have been lining up for hours to get their first taste of store-bought cannabis.

Although the lineups weren't as long as those seen in other provinces on legalization day last year, they were sizable: according to CTV News, 60 people were lined up outside London's Central Cannabis store for its 9am grand opening.

There are clear signs that cannabis shops are receiving a warm welcome in Ontario. The question is, will this last? Although perpetually high demand at Ontario cannabis shops would undoubtedly drive cannabis revenue higher, it's not clear that the demand we're seeing will last forever.

There's a "novelty" effect that kicks in whenever a new product becomes available, and while online cannabis sales have been legal in Ontario since October, it's possible that the novelty of buying weed in-store contributed to early demand.

To understand whether Ontario's new pot shops will make pot stocks worth buying, we need to look at what happened after marijuana was legalized nationwide.

The legalization effect

On October 17, 2018, marijuana was legalized across Canada. This event was expected to dramatically increase marijuana growers' revenue—and it did, with **Canopy Growth Corp** ([TSX:WEED](#)) (NYSE:CGC) selling [7300 kilograms](#) of recreational cannabis in Q3.

On the other hand, there is some evidence that increased recreational sales are hurting cannabis companies' margins. In **Aphria Inc's** (TSX:APHA)(NYSE:APHA) Q2 report, gross margin declined, reportedly because the lower selling price of recreational cannabis drove overall selling prices lower.

Prior to legalization, I had written a number of articles speculating that the less-regulated recreational market could see lower margins than medical pot, and it looks like those concerns came to pass. Medical marijuana has much more compliance than recreational marijuana, meaning that there are more barriers to entry.

In a relatively free market, commodities like weed become almost perfectly competitive, and that's precisely what we're seeing in recreational cannabis. I might add that [this was seen in Colorado](#), which legalized recreational cannabis in 2014 and saw its weed drop in price shortly thereafter.

Sales boost from in-store purchases

The start of brick-and-mortar cannabis sales in Ontario will likely drive cannabis revenues higher. Although the province has long had online cannabis sales, the convenience of in-store sales is new to the country's largest cannabis market.

In the wake of legalization, it was reported that many Ontario pot aficionados opted to stay with their black market dealers rather than buy legal weed. It's quite possible that the wait time involved in online cannabis purchases contributed to that. If so, the new Ontario cannabis stores will gain business from black market holdouts.

Canopy's advantage

If any marijuana stock could benefit from Ontario's brick-and-mortar cannabis store rollout, it's Canopy Growth. Canopy has the most robust brick-and-mortar cannabis retail pipeline of all the major producers, with several branded retail stores like Tweed and Tokyo Smoke.

This gives them a big edge in the cannabis sales war, as other growers depend on third-party vendors to sell their product. Canopy is already planning on opening a Tokyo Smoke store in Toronto, demonstrating that it's ready to grow its retail presence in the era of legal brick-and-mortar weed sales.

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