



Alert! This Pot Retail Stock Is a Bargain

Description

The roll-out of cannabis retail can only be called a disappointment as we approach the one-year anniversary of recreational legalization. Ontario, Canada's most populous province, adopted a private retail model after the election of the Ford-led Progressive Conservative government in the summer of 2018.

At the time, this appeared to be [very encouraging](#), but Ontario's cannabis retail roll-out has been sluggish on the brick-and-mortar side. Its e-commerce offering, the Ontario Cannabis Store (OCS), was marred by technical issues early on. Licences have been handed out sparingly to over-the-counter retailers in part due to supply shortages. Fortunately, this [problem will dissipate](#) as we move into the next decade.

One expanding pot retailer to watch

Alcanna (TSX:CLIQ) is an Edmonton-based company that has historically been in the liquor retail business. It announced that it would jump into cannabis retail ahead of recreational legalization, and its on-the-ground results have been promising. The stock, however, has encountered volatility. Shares have dropped 11.5% over the past three months as of close on September 3.

The company released its second-quarter 2019 results on August 9. Alcanna reported 20.9% sales growth in the quarter compared to the prior year and same-store sales growth of 8.2% in its core Canadian liquor retail business. Naturally, its cannabis retail unit drew considerable attention.

It opened a Nova Cannabis retail outlet on Queen Street West in Toronto back in April. Sales have averaged a healthy \$450,000 per week, making it the highest-volume store of all its over 250 locations. This illustrates just how explosive cannabis retail can be for Alcanna going forward. In May, Alcanna opened three additional Nova Cannabis stores in Alberta, bringing the total to the province to eight.

Alcanna aims to have 15-20 retail cannabis locations by the end of 2019. The growth rate at its cannabis locations has been very encouraging, and the slated expansion should fuel Alcanna's earnings into the next decade.

For the first six months of 2019 Alcanna has reported sales of \$350 million compared to \$294 million in the previous year, and the operating profit has climbed to \$8.7 million compared to a marginal loss in H1 2018. Sales growth has been powered by new acquisitions and the opening of said cannabis retail locations.

Why Alcanna looks discounted right now

Shares of Alcanna possess a solid price-to-book ratio of 2.1, but it still has a lot of ground to make up in terms of profitability in order to post a favourable price-to-earnings ratio. The stock had an RSI of 30 as of close on September 3. This puts Alcanna just outside technically oversold territory.

Alcanna terminated its quarterly cash dividend back in December 2018, so this is a target for growth-oriented investors. On that front, I like the stock's value as we open the month of September. Its foray into cannabis retail has been a success, and the opening of new stores should continue to fuel same-store sales growth while its liquor business has also made encouraging strides.

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