



Why Investors of Canopy Growth Corp. Should Be Concerned

Description

The cannabis industry is ready to take off next summer, when recreational marijuana is expected to be legalized, and it isn't just pot producers that are excited. The new industry is expected to create significant tax revenue for all levels of government, but that will mean more costs for producers, which will lead to higher prices for consumers.

The one big danger from this is a question that all investor should be asking:

Will higher pot prices push demand to the black market?

Marijuana regulation is already varying from province to province, and a lot of red tape in the new industry coupled with high prices might be enough to encourage prospective buyers to opt for the black market instead.

If that were to happen, then the growth that is expected for cannabis stocks could be significantly impacted and will have an adverse effect on the high valuation of many marijuana producers. Cannabis stocks have already been [growing at an alarming rate](#) and could crash if high expectations for demand don't measure up.

Last week, we saw the government put forward a formal proposal on how it plans to tax the industry, [which is no different than what we saw a month ago](#). The excise will still be either \$1 a gram or 10% of the total price, whichever results in a higher amount.

What this means for pot producers

Many cannabis companies are not breaking even, including **Canopy Growth Corp.** ([TSX:WEED](#)) — perhaps the most popular company in the industry. Being saddled with more costs won't help the company's bottom line, and could take it even longer to turn a profit; however, at this point, profitability hasn't been a key concern for investors.

Low-cost producers such as **Aphria Inc.** (TSX:APH) may be better suited to handle the cost increases, but they will still feel the impact on their financials.

Could this delay the legalization of marijuana?

The federal government has proposed a 50/50 split of tax revenue with the provinces, and many are saying the ratio is not fair given that it's been the provinces that have been left to roll out legislation and do all the dirty work in preparation for when marijuana becomes legalized.

Joe Ceci, Alberta's finance minister, said, "The federal government must be smoking something to think it will work for the provinces. It's unacceptable." Although this is one wrinkle to work out before marijuana is legalized, it's also not the only one.

There are still many issues that need to be ironed out, and getting everything resolved in time is going to be a challenge.

Should investors wait?

The price of many cannabis stocks has gotten out of control, and it may be wise for investors to wait on the sidelines to see how everything shapes out and make an informed decision before investing. There are high expectations for growth, and that is certainly priced in to many shares, meaning that a letdown in demand could set the stocks up for failure down the road.

However, in the short term, the excitement certainly remains strong, and it may not be a bad investment, but over the long term, there could be significant risk for investors.

CATEGORY

1. Investing

TICKERS GLOBAL

1. TSX:WEED (Canopy Growth)

PARTNER-FEEDS

1. Msn
2. Newscred
3. Sharewise
4. Yahoo CA

Category

1. Investing

Date

2025/08/18

Date Created

2017/11/18

Author

djagielski

default watermark

default watermark