

Will Canadian Cannabis Stocks Shrug Off the U.S. Move Against Legal Pot?

Description

On January 4, United States attorney general Jeff Sessions rescinded three Obama-era memos that had adopted a hands-off approach to cannabis laws. The move allows federal prosecutors to more effectively mobilize a crackdown on cannabis use. The decision comes after the state of California officially legalized recreational use.

There was a markedly critical response from Congress members from both parties in states where cannabis has been legalized. In the lead up to his 2016 election, Donald Trump had vowed to leave the cannabis issue up to the states. Sessions did not outline specific steps forward, indicating that immediate enforcement of this new strategy is not imminent.

Canadian cannabis stocks retreated sharply on the news. **Aurora Cannabis Inc.** ([TSX:ACB](#)), **Aphria Inc.** ([TSX:APH](#)), and **Canopy Growth Corp.** ([TSX:WEED](#)) all suffered declines over 10% to open the trading day on January 4. However, shares in all three companies have since bounced back. Could U.S. policy [deflate Canadian cannabis stocks](#) going forward, or is this a mere blip on the road to legalization in July?

Aphria was hit particularly hard, dropping as much as 25% on the day. The stock has since recovered to its previous levels. It closed at \$21.99 on January 8 — up 14.77%. Aphria has a number of investment in the U.S. cannabis market, which has been cause for anxiety for some investors.

In October, **TMX Group Limited**, which owns and operates the Toronto Stock Exchange (TSX), announced that it would [review cannabis stocks with a U.S. footprint](#). Aphria CEO Vic Neufeld was confident early on that his company was in a good position to respond to the review and avoid any concerns over delisting.

In December, Aphria stated it would move to reduce its U.S. exposure in an effort to “purify” its balance sheet. The company has continued to have discussions with TMX Group over the course of its review. As a last resort, Aphria leadership said that it could list Aphria’s U.S. interest as a separate entity on the Canadian Securities Exchange (CSE).

Other Canadian cannabis companies have avoided the U.S. for now and are instead pivoting towards Europe. Aurora Cannabis recently partnered with the Danish tomato and pepper producer Alfred Pederson and Son to drive production and sales in Europe. The venture will focus on selling cannabis in Scandinavian countries including Sweden, Norway, Denmark, Finland, and Iceland. Aurora followed this up with a \$55 million investment in The Green Organic Dutchman for a 17.6% stake.

Canopy responded to the move from the U.S. Department of Justice by reiterating its commitment to conducting its business in jurisdictions in which it will be compliant with federal law. The company has made an aggressive foray into Europe in recent months. It obtained a licence for production in Denmark that will give it access to other federally legal jurisdictions in the European Union.

As it stands, Aphria will be forced to sweat out the ongoing TMX Group review, but the company

already has contingency plans that will allow it to avoid delisting. Aurora Cannabis, Canopy, and others will watch and wait, as the U.S. struggles to forge a coherent path forward regarding its cannabis industry.

CATEGORY

1. Investing

TICKERS GLOBAL

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

PARTNER-FEEDS

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