



Should You Bet on Wine or Weed Stocks Over the Next Decade?

Description

A recent report from CFRA Research projected that alcohol companies could be squeezed by legal cannabis in the coming years. Analyst Joe Agnese made the projection in a note published on March 5. "Due to shared usage occasions, we view the legalization of cannabis as a threat to alcohol industry consumption growth."

Agnese pointed to research from the University of Connecticut and George State University that found that monthly alcohol sales dropped 13% in states that legalized medical cannabis. In the report, he predicts that Canada will make a very good test case.

The alcohol industry is undergoing some significant changes due to shifting demographics and consumer trends. One [major trend](#) is that of millennials moving away from beer and spirits to wine, which has seen its market share surge in recent years.

Statistics Canada released its report on the control and sale of alcoholic beverages for the year ending March 31, 2017 on May 10. Beer maintained its top position, raking in \$9.1 billion in sales, which accounted for 40.6% of the total. However, wine is making a charge. Liquor stores, agencies, and other retail outlets sold \$7.2 billion worth of wine, representing a 3.1% increase from the prior year. This accounted for 32% of total sales.

Andrew Peller Ltd. ([TSX:ADW.A](#)) is a Grimsby wine producing company. Shares of Andrew Peller have climbed 12.1% in 2018 as of close on May 14 and are up 56% year over year. Canadian wine volumes posted a 3.7% increase in the year ending March 31, 2017 compared to the 0.5% growth in imported wine.

A January report from Wine Access, an online wine discovery platform, also revealed good news for the industry. On average, Gen X consumers spent \$5,717 on wine annually compared to baby boomers, who spent \$4,900 and millennials, who spent \$4,163. These numbers were reported in the United States, but are indicative of a promising trend that sees the younger generation consuming wine at a pace that is encouraging for the industry at large.

Comparing this to cannabis consumption is obviously tricky given the sparse data available for

recreational users. In January, Statistics Canada estimated that Canadians aged 15 to 64 spent \$5.7 billion on cannabis in 2017 – equivalent to about \$1,200 per consumer. About 90% of this was for recreational use, which is currently illegal.

Canopy Growth Corp. ([TSX:WEED](#)) stock has climbed 8.8% in 2018 Thus far. Canopy Growth CEO Bruce Linton thought that the Statistics Canada projection [undersold the potential for the cannabis market](#). Linton estimates that the cannabis market could reach \$8 billion to \$10 billion when sales, marketing, and distribution ramp up. Companies like Canopy Growth and **Aurora Cannabis Inc.** have launched an aggressive overseas expansion in an attempt to take advantage of the vast European market.

It will be very interesting to see how alcohol sales respond to the legalization of recreational cannabis going forward. However, the potential of the wine industry prompts me to stick with the old guard today. I like Andrew Peller as a long-term buy and hold.

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2. TSX:WEED (Canopy Growth)

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