Will New Environmental Concerns Weigh on Canadian Marijuana Stocks?

Description

Just when you thought that Canadian weed stocks were confusing enough, a new consideration comes along to potentially spook the market.

The Globe and Mail ran a story on Monday that quoted Werner Antweiler of the University of British Columbia, as he voiced his concerns about the impact of the legal marijuana industry's potential carbon footprint.

I'll skip the facts and figures from the article and focus on two things that it brings up: firstly, the idea that government regulations covering weed production are likely to be applied once results start to come in regarding the industry's use of resources; and secondly, a well-known producer seems to be ahead of the curve.

Energy and water consumption may hit weed's bottom line

Intensified cannabis farming is likely to use up vast amounts of electricity and water. In fact, cannabis growing on large a scale is expected to weigh more heavily on resources than the wine industry does.

This is fine in times of higher water availability, but consider the impacts on the cannabis industry of a drought or a particularly dark summer: the former hitting production levels through water shortages, and the latter requiring more lighting during daylight hours.

Such impacts on resources will have a knock-on effect for the environment and come at a time when climate change is one of the hottest topics of our age, both politically and economically.

Meet weed's first poster child for environmental responsibility

One company seen to being doing its best on the climate front is **Hydropothecary** (TSX:HEXO). Its greenhouses reduce the need for electric lighting during long summer days, while computerized irrigation systems dole out the exact amount of water needed for growth, reducing waste.

Overvalued by twice its future cash flow value, Hydropothecary stock is in high demand with a share price to match. Since it's still in loss-making mode, value investors will have to skip the P/E and PEG ratios and look to a P/B of 2.9 times book. If that sounds a little steep, consider that the pharma sector average is four times book.

Growth investors looking for plenty of green will love Hydropothecary's nice and heady 156.9% expected annual growth in earnings. Momentum investors eyeing that ever-rising share price will no doubt be similarly pleased.

Brand-conscious investors will have been encouraged by Hydropothecary's brand-new deal with **Molson Coors Canada** to make a range of non-alcoholic cannabis drinks, making this a perfect first time buy for new investors who like to be familiar with a ticker as a real-world entity before buying.

The bottom line

Green investing may not be a big deal at present for Canadian shareholders, but real-world considerations when it comes to the cannabis industry's impact on climate change could spill over into actual fiscal concerns.

Once regulations are applied that cover water and energy consumption, cannabis producers may see legal stipulations begin to impact net worth. This, likewise, could impact their investors' long-term capital gains. On the flip side, companies seen to be greener than their competition may see benefits to their public image and subsequently to their share price as well.

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