



2 Reasons Beer Stocks Will Benefit From Cannabis Investment in the Long Term

Description

The surge for cannabis stocks mid-week was the lone bright spot, as the S&P/TSX Composite Index succumbed to volatility in global markets. The \$5 billion injection into **Canopy Growth** courtesy of **Constellation Brands** is a very encouraging development. However, today I want to focus on how beer companies are dipping into this fledgling industry and why it will be helpful going forward.

Cannabis industry potential is attracting investment

Analysts, economists, and prognosticators of all stripes continue to debate just how large the cannabis market will be when it ramps up to full capacity. The most recent report from Statistics Canada showed that total cannabis sales were just shy of \$6 billion in Canada in 2017, with 90% of revenue generated for recreational use. Some industry leaders have challenged this number. Canopy Growth CEO Bruce Linton has forecasted that the industry could be worth between \$8 billion and \$10 billion.

Back in May, I'd discussed a report from CFRA Research that projected alcohol companies would see cannabis [eat into revenues](#) going forward. The report cited data that showed monthly alcohol sales dropped an average of 13% in U.S. states that had legalized recreational cannabis.

In early August, **Molson Coors Brewing** ([TSX:TPX.B](#))([NYSE:TAP](#)) announced that it would enter a joint venture with **Hydrophothecary Corporation** to develop cannabis-infused products. These products will not yet be legalized when the October roll-out hits. The Canadian federal government has claimed that it will require more study to regulate the products properly. Edibles and cannabis-infused beverages have developed into popular products in U.S. states that have legalized recreational use.

Offset loss of market share in alcohol industry

Beer sales have been [steadily declining](#) relative to spirits and especially wine in North America. Wine is now the favoured drink among the millennial demographic in North America. This is a long-term challenge for the beer industry, and a jump into cannabis seems to be a sound strategy to shore up revenue.

Andrew Peller Ltd. ([TSX:ADW.A](#)) is a great example of how the wine industry has progressed over

the last decade. Shares have surged over 170% in a three-year span as of trading on August 17. In comparison, Molson Coors stock has climbed only 4.9% over this same period.

Will the foray into cannabis and cannabis-infused products help beer companies make up ground? It is possible but difficult to predict with the data surrounding cannabis so murky. The aforementioned report on alcohol sales in the states may not be representative of a larger trend. Investors will also have to wait on edibles, which are not expected to hit stores until July 2019. The government may reserve the right to change its mind and delay in this arena as well.

Beer stocks have floundered in recent years due to some of the factors listed above. Investors may want to dip back into these stocks as these companies make big bets on cannabis.

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TICKERS GLOBAL

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2. TSX:ADW.A (Andrew Peller Limited)
3. TSX:TPX.B (Molson Coors Canada Inc.)

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