



Could CBD Oil Give Marijuana Stocks a Lift?

Description

For owners of cannabis shares, late 2018 has not been the best of times. Although this summer witnessed some strong gains for stocks like **Canopy Growth Corp** ([TSX:WEED](#))(NYSE:CGC), they were followed swiftly by an [equally sharp pullback](#). A few weeks ago Canopy was close to erasing its gains for the year, but has since recovered. Still, it and most other cannabis stocks are way down from their 12-month highs.

Enter CBD oil.

CBD oil is a fast-growing product category that may just be cannabis growers' "ace in the hole."

Reports project that its sales will grow by 700% by 2020. A google trend search for the compound shows that its search interest is going up exponentially. And if that weren't enough, it's (mostly) legal worldwide, so there are no real barriers to mass adoption.

Because CBD [does not produce a "high"](#) it's more of a natural remedy than a "psychoactive drug." Nevertheless, because it's extracted from cannabis, pot growers still control the lion's share of the market. This means it could be a huge export market for cannabis companies with far fewer barriers to global sales than their main product lines.

But will this be enough to save cannabis stocks from their current stagnation? First let's look at what's going on with the sector as a whole.

Cannabis woes evident

There are a number of problems with the cannabis sector right now. Earnings reports from Canopy and **Aurora Cannabis** show that net losses are growing. Supply shortages and the threat of being denied entry at the U.S. border have customers running back to black market dealers. And some vendors are even seeing their revenue growth slow, which calls into question whether the mounting expenses are justifiable.

All of these concerns have led to a situation where cannabis stocks have fallen off since mid-October.

But there's reasonable hope that CBD could turn things around. One obvious reason is its legal status.

CBD oil legal in the U.S.

Although CBD isn't exactly as legal as Vitamin C, it's pretty close. In the U.S., it's not a scheduled drug on the federal level, which means that the product can be exported to the States without too many problems. The same is true of several other countries where cannabis is illegal, or only legal with a prescription, which means that CBD has a much larger potential export market than THC-containing cannabis does. It also means that Canadian customers can purchase it without too many issues from U.S. Border Patrol, which may even help sales on the home front.

Some stocks better positioned than others

One thing that should be mentioned is that CBD oil will not benefit all producers equally. Although all the big Canadian growers have some CBD offerings, some sell more of it than others. **Cronos Group Inc** ([TSX:CRON](#))(NYSE:CRON), for example, earns a whopping 29% of its revenue from CBD oil.

This means that it is better positioned to profit from this growing product category than its competitors, which are more invested in unrefined cannabis. This may ultimately make the "CBD-heavy" pot stocks better bets than their more THC-friendly peers.

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