



Could U.S. Hemp Legalization Send Marijuana Stocks Higher?

Description

A game changer for the cannabis industry is quietly being pushed through the U.S. political system. It's something that's barely getting any media attention, but could be a much bigger boon to cannabis producers than this year's ill-fated legalization drama.

What I'm talking about is the federal-level legalization of hemp in the U.S.

In January, U.S. president Donald Trump is expected to sign into law the "U.S. farm bill," which will remove hemp from the controlled substances act. This means that hemp will be fully legal to possess nationwide, effectively making the active ingredient, CBD, legal as well. As the leading manufacturers of medical CBD products, cannabis companies like **Canopy Growth** ([TSX:WEED](#))(NYSE:CGC) could benefit massively from this development by exporting CBD and other hemp products to the U.S.

To understand why this is the case, we need to look at the economics of the hemp industry.

Explosive demand

Demand for hemp is growing explosively worldwide. The total market is expected to reach US\$10.25 by 2025, which represents a 14% CAGR. While there are already legal channels for producing hemp for established, non-medical purposes, the U.S. farm bill could add to the already frothy demand by adding consumer and medical use markets that don't currently exist.

Wide applications

Hemp has a number of applications for which it is already being used, which contributes to growing demand for the material. Currently, hemp is used in textile-making, as a paper alternative, and as a source for [CBD oil](#). It's the latter use case that is of most interest to cannabis companies. Textile makers already have sources for industrial grade hemp, but the de-scheduling of hemp on the federal level will create new demand for hemp-sourced products. Companies like **Aurora Cannabis** ([TSX:ACB](#))(NYSE:ACB) are well positioned to supply CBD oil for new legal users in the U.S., because they

already have an established lineup of products ready to ship.

A huge market

Part of the reason that legalization didn't send cannabis stocks higher is because Canada is a relatively small market, and most cannabis companies are international. Most likely, companies like Canopy and Aurora will report increased sales for the current quarter when they're released next year. But the sales increase may not be as high as expected, because both of these companies are international and thus domestic sales only make up a small slice of their revenue.

Because the U.S. is such a huge market, hemp legalization in that country could increase cannabis companies' sales dramatically, just by providing an enormous number of new customers they didn't have before.

Bottom line

Late 2018 [has not been a great time](#) for cannabis stocks, and I still don't recommend them. But for the die hard who will be investing in the sector no matter what, there are some reasons for cautious optimism. The U.S. Farm Bill has the potential to open a massive CBD oil market that could send cannabis companies' revenues higher. Whether those increased revenues will solve these companies' profitability issues is another question.

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3. TSX:ACB (Aurora Cannabis)
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Date

2025/08/05

Date Created

2018/12/17

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