Canopy Growth Corp's (TSX:WEED) Big Move Into the U.S.: Why Investors Shouldn't Get Too Excited

Description

Earlier this week, **Canopy Growth Corp** (TSX:WEED)(NYSE:CGC) was given a license to produce hemp in New York State. While it's a big milestone for a TSX-listed cannabis stock, investors need to temper their expectations. There are, after all, some big limitations, and it's not going to be able to compete at the same level other U.S. cannabis companies will be able to, especially if the state legalizes recreational use.

Investors will recall last year when the TSX reminded cannabis companies that running afoul of federal U.S. laws would mean a stock is not in compliance with listing requirements on the TSX. The announcement was in response to some Canadian companies having interests in the U.S. cannabis industry.

While it's true that the U.S. recently passed the farm bill and will now permit hemp-derived cannabidiol (CBD), that's all that it has legalized. CBD as a whole is not legal, nor is tetrahydrocannabinol (THC). The levels of THC have to be very minor, at no more than 0.3%, which won't have much effect.

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Canopy Growth and any TSX-based stock would have to ensure that they only sell cannabis products that have been legalized at the federal level. Even then, it's still up to the individual states to decide to allow the products or not, so hemp products can't automatically be sold everywhere.

Why TSX companies are still at a big disadvantage

The problem for Canopy Growth and others that look to expand into the U.S. is that local firms have big advantages today. A company like **MedMen Enterprises Inc** (CNSX:MMEN), for instance, has a presence in several U.S. states. If recreational marijuana becomes legal in New York, I'd expect it would jump all over that. And without the restrictions of the TSX, it wouldn't be selling just hemp.

While hemp products will definitely appeal to medical marijuana users, that's a very small subset of the industry. Without much more research being done on cannabis, many patients will hesitate to try it and so doctors will be hesitant to prescribe marijuana. It's still a very big hurdle in the minds of many people, as not everyone is convinced that it can provide medicinal benefits. Until that happens, the medical market is going to take a long time to grow. It's certainly a long-term play, but that shouldn't excite investors.

While companies wait for the medical market to take off, MedMen and other unobstructed companies can be left to dominate the recreational market and establish a strong brand loyalty well before Canopy Growth is able to become a major player in the U.S. market.

Bottom line

While this is certainly good news for Canopy Growth, investors shouldn't read too much into this. We've already seen how expectations in the industry can get more than a little out of whack, and the same could be happening all over again. Ultimately, until recreational marijuana is going to be legalized by the U.S. government, TSX-based stocks are going to remain at a significant disadvantage. The farm bill was a good start, but we've still got a long way to go.

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