The #1 Cannabis Risk That No One Is Talking About

Description

The cannabis industry hit its stride last year, with many pot stocks rising by 100% or more. In many ways, the exuberance is warranted.

In 2018, Canada became the first industrialized country in the world to legalize recreational cannabis. Many U.S. states followed suit. Today, most states in the U.S. have some form of legal marijuana, even if it's not available to everyone on a recreational basis.

Over the last 12 months the tides have turned abruptly, catapulting marijuana into a legitimate industry. More recently, Wall Street analysts have fueled the fire with hard numbers.

After garnering less than US$7 billion in global sales in 2016, the cannabis market surpassed US$12 billion in sales last year.

By 2022, Arcview Market Research anticipates the market will reach $31.3 billion. **Cowen Inc** believes that the market could reach $50 billion in global sales by 2026, ballooning further to $75 billion by 2030.

Clearly, cannabis is set to become a major growth story for at least a decade. However, amid the hype, many investors are ignoring some real risks that could ultimately bring down many pot stocks.

If you're investing in the cannabis industry, you'll want to fully understand the biggest risk nearly every marijuana producer will face: commoditization.

Growth at a steep cost

At the end of the day, cannabis companies are simply growing crops. The planting and harvesting cycle isn't too different from corn, tomatoes, or soybean. Take **Village Farms International Inc** (TSX:VFF)([NASDAQ:VFF](#)) for example.

For more than a decade, Village Farms simply grew produce, like peppers and cucumbers. From 2010 to 2016, when the company was solely focused on vegetables, the stock price went nowhere, never

breaching the $1 per share mark.

After it pivoted to cannabis, the stock price jumped from $0.80 apiece to more than $18 each.

Even Village Farms admits that growing marijuana won't be too difficult. Management has repeatedly said that its expertise in growing vegetables makes the company a plug-and-play producer of cannabis.

In the coming months, Village Farms will have more than one million square feet of cannabis production capacity. By the summer of this year, it should hit run-rate cannabis production of 75,000 kilograms.

Village Farms has become a cannabis powerhouse virtually overnight, with a market valuation approaching $1 billion. But the company's success proves that growing cannabis isn't that difficult. Check out the list below: nearly any supplier can do it.

Cronos Group Inc is on track for more than 100,000 kilograms in annual output.

Aphria Inc is targeting 115,000 kilograms annually, up from 30,000 kilograms this year.

Green Organic Dutchman Holdings Ltd wants to grow 65,000 kilograms of cannabis this year, up from nearly nothing the year before.

Aurora Cannabis Inc is on its way to producing a staggering 700,000 kilograms over the next few years.

While there are some regulatory barriers to growing cannabis, some fail to appreciate that commercial vegetable growers must also jump through large amounts of red tape. If there truly are great profits to be had, expect more and more producers to jump into the market.

Today, it's not very profitable to grow staples like tomatoes, beans, rice, or cabbage. In another decade, there's a chance that growing cannabis isn't wildly profitable either. That reality could crush nearly every cannabis stock.

Commoditization could be a lot closer than you think. In late 2018, news outlets reported that Oregon was "drowning in one million pounds of excess weed." That's a scary headline for any cannabis investor.

CATEGORY

1. Cannabis Stocks
2. Investing

POST TAG

1. Cannabis

TICKERS GLOBAL

1. NASDAQ:VFF (Village Farms International, Inc.)

PARTNER-FEEDS

1. Msn
2. Newscred
3. Sharewise
4. Yahoo CA

Category

1. Cannabis Stocks
2. Investing

Tags

1. Cannabis

Date
2025/07/21
Date Created
2019/04/13
Author
rvanzo

Footer Tagline