



What Investors Need to Know Before the Legalization of Cannabis Edibles

Description

As the one-year anniversary of cannabis legalization in Canada approaches, a new strain of marijuana production will soon be available to Canadians: edibles.

As of October 17, 2019, amended regulations to the *Cannabis Act* will take effect, though Canadians likely won't see any edibles available both in-store or online until mid-December at the earliest.

As an investor, you might be curious to see whether the markets will catch the excitement of 2018 yet again for cannabis stocks.

So let's look at whether edibles really deserve that hype — and whether there are some stocks in this marijuana downturn that deserve your attention.

The edibles industry

Let me throw some numbers at you right away. While the United States might not have full legalization of cannabis, there is one area where legalization has been sweeping the nation: cannabidiol (CBD). CBD products have hit the shelves of Kroger, CVS, and Walgreens, to name but a few, thus opening the doors for cannabis companies to jump in on the high.

This has allowed many companies to already start toying with the use of cannabis in products like food and drink, and it's clear why the interest is there. Cannabis-based food and drink products could reach US\$11.56 billion in Canada and the United States by 2025.

Given that many products likely won't even be available containing tetrahydrocannabinol (THC) — the drug that actually gets you high — until 2020, that's just a taste. As of legalization, one serving of any product can contain a maximum of 10 milligrams of THC.

But there is one dent in the upcoming legalization: Quebec. The province will not allow cannabis edibles such as brownies, ice cream, chocolate, candy and baked goods upon legalization.

The main problem the province has with edibles is the attraction for children; Quebec is also toying with the idea of raising the cannabis consumption age to 21 in Quebec.

“We are really worried about the kids,” said Lionel Carmant, Quebec’s junior health minister. “The first thing we need to take care is our public health before economical issues.”

Who benefits?

As the edibles industry gets underway, there are definitely a few companies out there set up to take the most advantage.

Canopy Growth Corp. ([TSX:WEED](#))(NYSE:CGC) place on that list shouldn’t be a surprise, as the company has a US\$4 billion investment from **Constellation Brands** ready and raring to go, with a bottling factory already running at all cylinders in Smith Falls, Ontario., along with a chocolate maker. It also likely needs the cash after reporting a loss of \$1.3 billion.

Another company looking to jump on the edibles bandwagon is **Hexo Corp.** ([TSX:HEXO](#))(NYSE:HEXO) after partnering with **Molson Coors Canada** and Newstrike Brands for both [cannabis-infused beverages](#) and food products.

In fact, Hexo wants to start working on bringing cannabis into everyday ingredients that you would pick up at the grocery store, rather than just sweets and treats.

Should you buy?

If I’m buying one of these stocks today ahead of edibles legalization, it’s definitely Canopy. Hexo has had a bit of a shake-up itself recently, with co-founder and CEO Adam Miron stepping down — and no one knows why.

On the eve of such a major event as edibles legalization, with Hexo setting itself up to be a big player in this industry, this leaves too many question marks about where Hexo could be headed.

Canopy, on the other hand, is into just about everything. Its research and development team is stellar, and has been working on the edibles market for a while now. If any company is [going to benefit](#), it’s going to be them.

Despite terrible earnings, this provides investors with an opportunity for those willing to wait out the storm.

But *will* they benefit? That remains to be seen. The edibles industry will be a slow climb, if it adds to a company’s revenue stream in any significant way at all. Frankly, I don’t believe that food itself will make a major impact, though beverages might.

If either does, it will take a while for these products to catch on, so investors shouldn’t assume a sudden burst in stock price from the edibles industry.

That said, it’s definitely something to consider when considering the next cannabis stock on your watch

list, as every little bit helps.

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