



Why Cannabis Stocks Could Start to Rally Very Soon

Description

Pot stocks have been struggling badly as of late. A lack of profitability, failing to meet expectations, the **CannTrust scandal**, and problems with misleading advertising are just some of the reasons investors have cooled their excitement for the new industry.

The good news, however, is that things could get a whole lot better very soon.

More stores on the way

The Canadian market has been plagued with a lack of supply that has kept the number of pot shops very limited. Ontario recently announced it would be having a second lottery to increase the number of licences in the province by 50.

That's still a minimal amount in Canada's largest province. Consider that Alberta, a fraction of the size, had 75 locations by the end of February. However, it too has had to slow down earlier this year on concerns that there simply wasn't enough pot to go around.

As companies continue to ramp up supply, we'll see these supply problems start to fade away. There's so much supply about to come online that some are projecting we will see the tide turn from the market being undersupplied to oversupplied. As long as things don't get as bad as they've been in [Oregon](#), we should see some healthy competition and a stronger industry overall.

Edibles will bring in more customers

Another big wave that is going to hit the markets is the legalization of edibles. A recent survey done by Ernst & Young in Canada and **Lift & Co.** found that the Canadian market could see as many as three million more customers enter the market, or about 12% of the non-consumers thus far.

Edibles give consumers a greater variety of products to test and cannabis can be more appealing in the form of a cookie or chocolate candy to consume than it would be to smoke.

Even when it comes to medical marijuana, gummy candies are more appealing to patients, since it's easier to control portions that way than it is trying to determine the correct dosage while inhaling marijuana.

The edibles market could give the industry some new life, and that's where as bad as things may look today, we could see a lot more excitement return to the industry in the coming months.

One company that could benefit

Hexo ([TSX:HEXO](#))(NYSE:HEXO) is one stock that could be one of the biggest winners from the launch of the edibles market. The cannabis company has partnered with brewing giant **Molson Coors Canada** to work on developing cannabis-infused beverages together.

The companies look to bank on what could be a hot new trend for the industry. Although it hasn't made a big dent in sales south of the border, there's definitely a lot of potential for a beverage that doesn't get users high and that still provides a buzz.

Hexo still has a long way to go. In its most recent quarterly results, the company generated just \$13 million in sales, well below what some of the bigger cannabis companies have been able to produce. With new cannabis products set to launch and Hexo being able to tap into that market in a big way, we could see those numbers get a whole lot bigger and stronger.

Through the first seven months of the year, Hexo's stock has risen a modest 7%.

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