SAFE Banking Act Clears First Hurdle: Should You Buy Canopy Growth (TSX:WEED) Stock Today?

Description

Canadian marijuana stocks have endured a rough run in recent months, and the anticipation of the launch of the edibles market isn't doing much to support the share prices.

One event that just occurred in the United States, however, might be a catalyst for the players who are positioned to take advantage of the possible legalization of cannabis sales in the United States at the federal level.

What's the scoop?

The House of Representatives just passed the SAFE Banking Act, which is a bill that essentially gives cannabis companies in the United States access to traditional banking services.

The sale of marijuana is legal in many states, but remains illegal at the federal level. This has posed a major problem for cannabis companies, as they have been forced to use alternative lenders and non-bank financial partners to help launch and grow their businesses.

The passing of the bill now gives nearly 10,000 legal cannabis businesses in the United States the ability to use traditional banking services. This is viewed as an important step toward the eventual federal legalization of the sale of cannabis in the country.

The Senate still has to pass the SAFE Banking Act, but industry leaders are hoping it will get the green light, after strong bipartisan support in the House of Representatives.

How does this impact Canopy Growth?

Canopy Growth (TSX:WEED)(NYSE:CGC) has an agreement in place to acquire **Acreage Holdings** when it becomes legal in the United States at the federal level to cultivate, distribute, and possess marijuana. Canopy Growth paid US$300 million for the right to buy Acreage for US$3.4 billion.

Acreage is a major player in the U.S. cannabis industry with production and distribution facilities in 20 states. It had more than 80 dispensaries and 22 cultivation and processing sites when the deal was announced in April.

These markets are home to 180 million people. That's roughly five times Canada's population.

Should you buy Canopy Growth?

Canopy Growth is a leader in the Canadian cannabis industry and has an established presence in other key emerging global markets, including Europe and South America. The acquisition of Acreage would give it a head start on the U.S. market, in the event marijuana is legalized federally.

The passing of the SAFE Banking Act makes that possibility more likely, although it isn't a guarantee.

At the time of writing, Canopy Growth trades for $32.50 per share and has a market capitalization of about $11 billion. The company still has the financial clout to expand and that would give Acreage a good boost in the race to scale up in the United States.

Canopy Growth is 38% owned by **Constellation Brands**, a U.S. beer, wine, and spirits giant with a market capitalization of U.S. $39 billion. The support of Constellation Brands should help Canopy Growth remain a leading player as the industry grows.

The company is still losing money and isn't expected to turn a profit for some time. In addition, revenue came in in below analyst estimates in the most recent quarter. This is part of the reason the stock has remained under pressure.

I wouldn't back up the truck, as we could see more downside in the sector before bargain hunters jump in and push share prices higher. That said, investors who are long-term cannabis bulls should have Canopy Growth in their portfolios.

Ongoing volatility should be expected, but it might be worthwhile to start nibbling while the stock is out of favour.

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Date
2025/08/25
Date Created
2019/09/26
Author
aswalker