Bear Market: Why Cannabis Stocks Could Have Huge Upside

Description

In the summer of 2019, I'd discussed whether the cannabis sector would be resilient in a future recession. Cannabis qualifies as a "sin" industry. So-called sin stocks — which derive their name from the products they represent, like tobacco or alcohol — are a sub-category of consumer staples. These industries are typically robust, even as other sectors suffer.

Analysts and economists are expecting a sharp downturn for at least two consecutive quarters. More pessimistic prognosticators anticipate a prolonged retreat. This is a unique environment that has forced many Canadians back home — either to due layoffs or to work remotely. The service industry has been Hit particularly hard, with restaurants and bars being ordered to close shop by government officials.

This has provided a test case for cannabis. Can investors trust this fledgling industry to perform in these turbulent times?

Cannabis sales on the rise

Sales in the sector had softened since Canada legalized recreational cannabis use in October 2018. In late 2019, it proceeded with the second phase of legalization, which included vape pens and cannabis-infused edibles. New data suggests that the COVID-19 outbreak has spurred more buying in this sector.

The Ontario Cannabis Store (OCS) reportedly received more than 3,000 orders on Saturday, March 14. This represented an 80% increase from the average Saturday. OCS spokesperson Daffyd Roderick said that the last three days brought an increase in the volume in sales on the company website, and a heightened demand for same-day and next-day delivery.

Authorized cannabis retailers are also experiencing higher volumes, but face-to-face store closures will likely mitigate this in the days and weeks to come. Fortunately, at this stage, cannabis supply has largely stabilized and delivery is fully operational.

Should you jump into these stocks?

Cannabis stocks have not been spared in this volatile environment. On the contrary, the market bloodbath has made things even worse for the top producers. Could a sales spike provide some momentum going forward?

Canopy Growth (TSX:WEED)(NYSE:CGC), the largest producer in Canada, has seen its stock drop over 50% month over month as of mid-afternoon trading on March 18. Shares are down over 75% year over year. Earlier this week, Canopy Growth announced it was closing its corporate-owned cannabis stores across the country in response to the outbreak.

Vape and edibles sales have also posted a promising increase since "Cannabis 2.0" became a reality in late 2019. Canopy boasts a massive trove of products in this category. In January, roughly $4.4 million worth of cannabis edibles and vape products were sold via wholesale and online channels throughout Ontario. The OCS has said that this illustrates the strong demand after the second phase of legalization.

Chief Executive David Klein assured onlookers that Canopy Growth remains in a strong financial position. It still possesses a good amount of cash, but it is working to cut costs as its liquidity has taken a hit in recent quarters. Top producers like Canopy Growth and **Aurora Cannabis** will be relying on online sales in the coming weeks. Cannabis has struggled over months, but it has a chance to show its unique resilience in this tumultuous economic period.

CATEGORY

1. Cannabis Stocks
2. Investing

POST TAG

1. Cannabis Stocks

TICKERS GLOBAL

1. NASDAQ:CGC (Canopy Growth)
2. TSX:WEED (Canopy Growth)

PARTNER-FEEDS

1. Business Insider
2. Msn
3. Newscred
4. Sharewise
5. Yahoo CA

Category

1. Cannabis Stocks

2. Investing

Tags

1. Cannabis Stocks

Date
2025/08/16
Date Created
2020/03/18
Author
aocallaghan