What Does the SAFE Banking Act Mean for Pot Stocks in 2021?

Description

On September 23, the U.S. House of Representatives passed the Secure and Fair Enforcement Banking, or SAFE, Act for the fifth time. If this bill becomes a law, it would mean that licensed cannabis producers and related businesses would be treated similarly to other legally operating entities.

Currently, marijuana is still illegal in the U.S. at the federal level, which has limited the ability for licensed producers to raise debt capital. The SAFE Banking Act is likely to open up funding opportunities for marijuana businesses and allow them to establish long-term relationships with banking partners in states where cannabis has been legalized for recreational or medical use.

Around 36 states in the U.S. have legalized pot for medicinal use, but cannabis is still a Class I controlled substance at the federal level. This prohibits banks from lending to companies part of the marijuana industry. In fact, marijuana producers are unable to even establish bank accounts, making it obligatory for them to deal in cash, significantly impacting growth prospects.

The SAFE Banking Act will have a positive impact on multi-state operators such as **Green Thumb Industries** and **Cresco Labs**. It will even benefit Canadian cannabis producers such as **Canopy Growth** (TSX:WEED)(NYSE:CGC), **Tilray**, and **Cronos Group**, which are eyeing expansion south of the border once marijuana is legalized at the federal level.

The SAFE Banking Act was initially approved in 2019, and last month the House of Representatives approved a National Defense Authorization Act (NDAA). The SAFE Banking Act was attached to the NDAA, and as the Democrats now control the upper house, investors can expect the bill to be passed as law in the near future.

What it means for Canopy Growth and peers

The last three years have been an extremely tough period for Canadian cannabis producers. Marijuana was legalized in Canada back in October 2018, which pushed pot stocks to record highs. For example, shares of Canopy Growth rose from $5.28 in October 2016 to $67 in April 2019.

It’s currently trading at $16.88, valuing the marijuana heavyweight at a market cap of $6.64 billion. Canopy Growth stock is down 46% year to date and is trading 77% below all-time highs.

Canopy Growth and several domestic marijuana producers were impacted by industry-wide issues that included competition from a thriving black market and slower-than-expected roll-out of retail stores in major Canadian provinces, which impacted demand for its products significantly.

This, in turn, led to high inventory levels, multi-billion-dollar write-downs, and mounting losses. A tepid demand environment and cannibalization from the lower-priced products available illegally meant that Canopy Growth still remains unprofitable, even on an adjusted basis.

In fact, companies such as **Aurora Cannabis**, **HEXO,** and **Sundial Growers** have diluted shareholder wealth at an alarming pace, as they have constantly raised equity capital to support cash burn.

Now, if the SAFE Banking Act is approved, it will make it easier for Canopy Growth and peers to access debt capital and take advantage of the prevailing low interest rate environment.

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