



This New Legislation Could Unlock Billions for Cannabis Stocks

Description

Cannabis stocks have had a rough few years. The excitement from 2017 has completely worn off and most companies have struggled to retain value this year as well. However, a new piece of legislation could open up a new market and unleash more demand for Canada's oversupplied cannabis sector.

Here's what growth investors need to know.

Cannabis legislation

North America is the largest market for cannabis. In recent years, most of this market has moved to legalize the substance for medical or recreational use. At the moment, cannabis is legal across Canada and for recreational use in 19 states of the United States. However, it remains illegal in some states and on the federal level.

Yesterday, Republicans in the U.S. House of Representatives introduced a new bill that would decriminalize cannabis on a federal level. "If we were to pass this bill today ... businesses would operate and be legal and regulated just like alcohol," Representative Nancy Mace of South Carolina told **Reuters**.

Cannabis legalization is already supported by the Democrats, which means this bill is likely to pass with bipartisan support. If it does, it could be the first step towards fully opening up the U.S. market to legal pot.

Canadian cannabis stocks

Legalization on a federal level could also open up the U.S. market to foreign imports. This could alleviate the oversupply we face in Canada. Companies could also find it easier to make cross-border transactions to expand operations across the continent.

Canopy Growth ([TSX:WEED](#))(NYSE:CGC) is an obvious beneficiary of this move. The company is

already listed in the U.S. and has operations there, but faces subtle hurdles to expansion.

The company moved to acquire Wana Brands — an edibles manufacturer — earlier this year. Instead of a traditional takeover, the company was compelled to purchase the [right to acquire the business](#) in the future due to tight regulations. Such investments will be easier if the U.S. legalizes cannabis on a federal level soon.

Canopy Growth certainly needs some positive news. The stock is down 66% this year and 75% from its all-time high in 2019. It's trading at just 13 times annual sales and less than two times book value per share. It has enough capital and infrastructure to aggressively expand in the U.S. if the country fully legalizes cannabis.

My colleague Aditya Raghunath believes the stock [could double in the next five years](#), even without this catalyst.

Bottom line

The U.S. is, by far, the largest market for medical and recreational cannabis. Several states have legalized the substance to varying degrees, but it remains illegal on a federal level. This week, Republicans introduced a new bill that could change that.

Canadian cannabis stocks like Canopy Growth should be on your radar, as this bill progresses through the U.S. Houses of Congress.

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