Should You Invest $1,000 in Cannabis Stocks Right Now?

Description

The cannabis sector has experienced a bumpy ride over the past year. Investors who were late to the party and invested money in 2019 are likely nursing significant losses. However, right now could be an opportune time to invest in cannabis stocks, given the negative sentiment in the sector. Let's take a look at three top Canadian names in this space.

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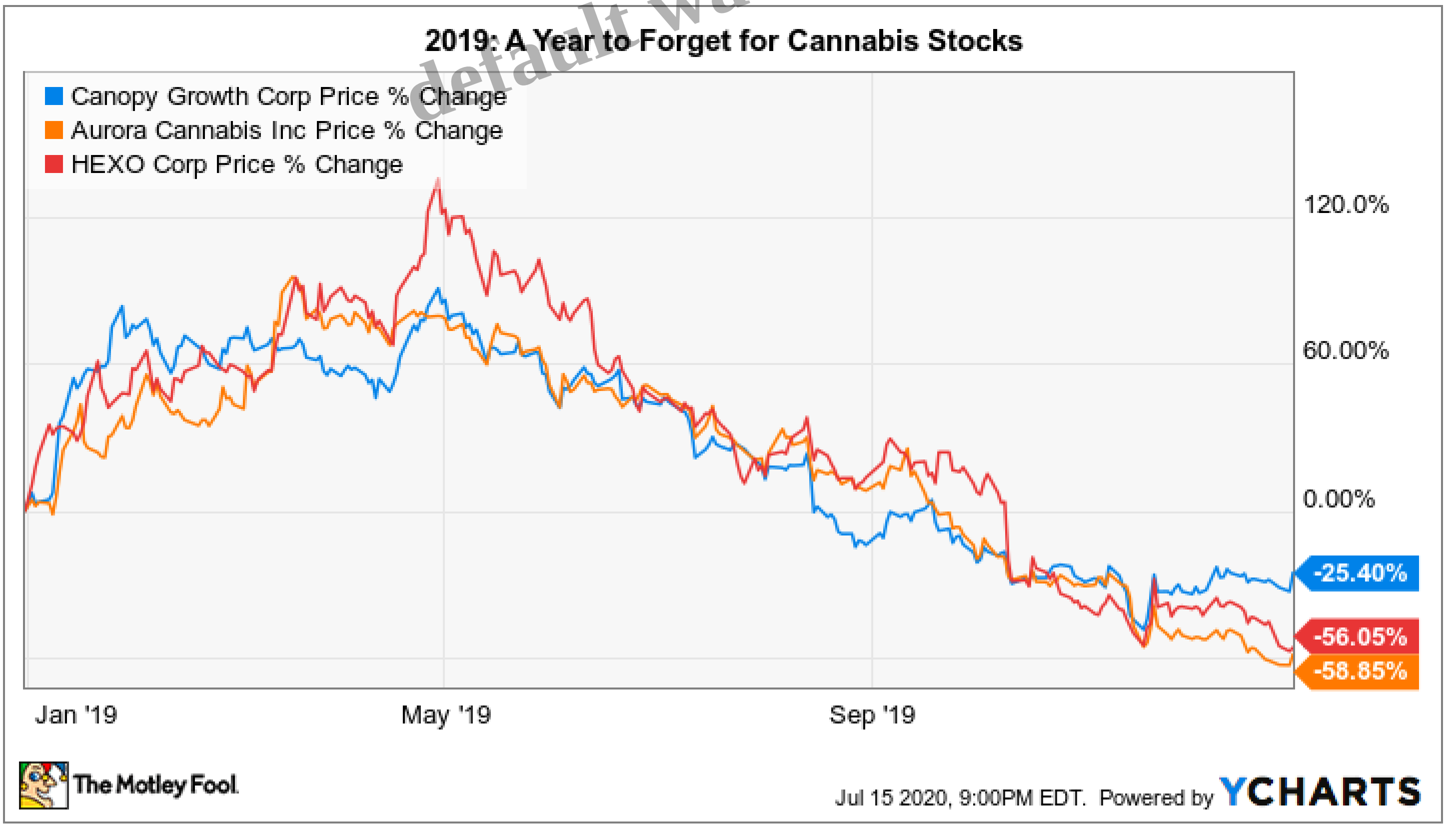

Canopy Growth

Canopy Growth (TSX:WEED)(NYSE:CGC) is the largest cannabis company by market capitalization. Canopy is also famous because of the $5 billion investment it received from **Constellation Brands** in 2018.

The company has a very broad product portfolio and has gone all-in on new product formats, particularly beverages. This market has a lot of potential. However, current restrictions around cannabis marketing, for example, make it much harder to develop a cannabis brand than it is to develop an alcohol brand. Hurdles like this pose a greater threat to Canopy's long-term success than anything to do with Canopy's execution.

Therefore, if you believe that governments will loosen some of the regulations around cannabis marketing, it may be a wise time to consider Canopy stock. However, if you are convinced that the current regulations will remain, you may want to stay on the sidelines until it becomes clear how brands will work within the existing framework to build market share.

Aurora Cannabis

Aurora Cannabis (TSX:ACB)(NYSE:ACB) was a heavy acquirer in the early days of the cannabis industry. The company gobbled up smaller players in the hopes of creating an array of brands built upon the largest production footprint in Canada. As followers of the sector are acutely aware, that did not turn out as planned for Aurora.

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Aurora's early stumbles can at least partly be attributed to regulatory lag. There is a massive demand for cannabis in Canada. Aurora anticipated that a significant portion of this demand would quickly shift from the black or grey markets to the legal market. Unfortunately for Aurora, that transition has been painfully slow.

A slow retail rollout in Ontario, stringent packaging regulations, and high prices all contributed to the slow transition to the legal market. Government regulations were responsible, to varying extents, for all of these factors. If you believe that the provincial and federal governments will provide more accommodative policy in this space over the coming years, Aurora is a great stock to consider at current prices.

Hexo

Hexo (TSX:HEXO)(NYSE:HEXO) demonstrated that pricing was a pivotal factor holding back the transition to the legal market. Hexo launched its Original Stash line of value-priced products with the express intention of undercutting the black market. That strategy seemed to work, and Hexo was rewarded.

The company witnessed a 42% increase in adult-use sales volume in Q3 2020 compared to Q2, which it primarily attributed to the launch of Original Stash. The Original Stash products have also reviewed remarkably well on the sites of cannabis retail and cannabis review platforms.

Hexo demonstrated that the demand is there for quality products at a fair price point. Therefore, as regulations and production techniques converge to give producers the ability to derive a profit from selling value-priced cannabis, this should be a strong tailwind for the industry. However, with Hexo reporting excise tax charges that amount to about 25% of revenue, governments will clearly play a large role in helping drive down the costs of cannabis.

Takeaway

The cannabis sector is rife with policy risks that are out of the hands of investors. However, there seems to be consensus around the need for the industry to develop to the point where the black and grey markets are unable to effectively compete.

Assuming governments and industry can come together to accomplish this goal, the industry is in good shape for the long term. However, investors may be left waiting for quite a while for the regulators to get things right.

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2. Investing

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5. Canopy Growth Stock
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9. TSX:ACB
10. TSX:WEED

TICKERS GLOBAL

1. NASDAQ:ACB (Aurora Cannabis)
2. NASDAQ:CGC (Canopy Growth)
3. NASDAQ:HEXO (HEXO Corp.)
4. TSX:ACB (Aurora Cannabis)
5. TSX:HEXO (HEXO Corp.)
6. TSX:WEED (Canopy Growth)

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