



2 Beverage Companies Jump Into Cannabis Retail: Should You Buy Today?

Description

Canadian cannabis stocks rebounded week over week as of close on April 18. Prices plummeted amid a broader sell-off on the Toronto Stock Exchange (TSX), and those warning of overvaluation were finally vindicated from late January onward. [Recreational legalization](#) is roughly four months away, and the stabilization in prices has investors looking for new opportunities.

Much of the focus has been on producers, but the multi-billion-dollar cannabis market will have far-reaching impact on Canadian businesses. The federal government allowed provinces to determine sales and distribution, which will also impact the fortunes of retailers. Two beverage retailers have made an early foray into cannabis retail but will be restricted to provinces allowing private sales.

Should investors add these stocks to their portfolios ahead of recreational legalization?

The Second Cup Ltd. (TSX:SCU)

The Second Cup is a Mississauga-based company that operates cafes across Canada. It has also expanded its operations to the United States, Europe, and the Middle East. Shares have soared 55.3% in 2018 as of close on April 18, largely due to a big announcement that came last week.

On April 12, The Second Cup announced that it planned to turn several of its coffee shops into cannabis dispensaries. The company is partnering with National Access Cannabis Corp. and will jointly apply for dispensary licences in western Canada. Private retailers will be permitted in Alberta and British Columbia. Both companies plan to open 20 stores in Alberta to start operations.

The Second Cup has seen its retail sales slump in recent years. Chairman Michael Bergman described the move as “opportunistic.”

“Let’s say there’s a Second Cup store doing \$750,000 a year ... That’s OK,” Bergman said last week. “But let’s say there’s an opportunity to transform it into a dispensary that might do \$5 million out of the same space ... We’d be crazy not to take a look at that opportunity.”

National Access Cannabis leadership has expressed hope that the massive Ontario market may also

allow private retailers in the near future. It is worth noting that Ontario PC leader Doug Ford, whose party is currently leading in polls ahead of the June election in Ontario, has spoken in favour of cannabis privatization in the province. The Second Cup has a sizable retail footprint in Ontario.

Liquor Stores N.A. Ltd. (TSX:LIQ)

In early February, **Aurora Cannabis Inc. (TSX:ACB)** made a [strategic investment](#) in Liquor Stores N.A. for a nearly 20% stake. Liquor Stores will look to convert some of its stores, which are in western Canada, into cannabis outlets. The company owns 231 retail liquor stores in Alberta, B.C., and Alaska.

Liquor Stores has seen sales slump; it reported a 1.8% drop from 2016 to 2017. Shares of Liquor Stores have dropped 6.8% in 2018 thus far. It also boasts a solid 3.6% dividend yield.

At current prices, both of these stocks are worthy speculative additions ahead of legalization.

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