



Should Investors Be Excited Over the Prospect of Privatized Cannabis Retail in Ontario?

Description

In March, the C.D. Howe Institute, a Toronto-based not-for-profit research firm with a focus on public policy, released analysis that was critical of Ontario's execution of recreational cannabis legalization. The report predicts that publicly controlled cannabis stores will have difficulty phasing out the black market. It also criticized the lack of availability for consumers. The province will open 40 stores initially and is aiming for 150 openings by 2020.

This lack of access, the report says, will drive consumers back to the black market. The report praised Alberta's provincial plan, which will allow [private retailers](#) to operate alongside government retail stores. **Aurora Cannabis Inc.** ([TSX:ACB](#)) recently acquired a 19.9% stake in **Liquor Stores N.A. Ltd.** ([TSX:LIQ](#)), which aims to convert some of its western Canadian locations into retail cannabis stores.

The Ontario election on June 7 has the potential to shake up these projections.

The Ontario PC party currently enjoys a sizable lead in the polls. The most recent poll from Forum Research, which surveyed 1,126 Ontarians, has the PCs at 46%, the NDP at 27%, and the Liberals in third at 21%. Doug Ford, the newly elected Ontario PC leader, has said that he is open to the idea of free market cannabis in the province. In the following days, Ford walked back the statements and vowed to implement the plan for public control.

This indecisiveness illustrates a significant split within the party on the issue of recreational cannabis. That split pits social conservatives, who have been wary of cannabis legislation and accessibility, and the libertarian wing, who are in favour of privatization. A [similar battle](#) is playing out in the Republican Party south of the border.

Top cannabis producers have also chimed in on the debate since the plan was announced in 2017. **Canopy Growth Corp.** ([TSX:WEED](#)), which has seen its stock slump alongside its competitors in a choppy 2018, responded to the Ontario retail plan in September 2017. “We encourage the government to consider allowing existing licensed producers to continue their e-commerce sales if this can allow for a more cost-effective, expeditious, and varied sales model for Ontarians.”

National Access Cannabis Corp. is a Toronto-based company which owns cannabis clinics across the country. “We strongly support the privatized retail distribution model,” President Derek Ogden said recently in response to Ford’s first comments. “We think it’s the best model overall to pull people from the black market into the legal regulated market, so we’re strongly in favour of the comments.”

The June 7th election could set in motion an interesting political battle that will undoubtedly impact cannabis investment in Ontario. It remains to be seen whether or not the PC party, already split on the issue, will push for privatization and spark a showdown with a powerful union bureaucracy that has its eyes set on store staffing and cannabis revenue. Ford’s prompt reversal on privatization should probably motivate investors to bet on the latter.

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