



A Fool's Guide to the Ontario Election

Description

The 2018 Ontario election campaign has lived up to its billing as one of the most contentious in living memory. As we near the end of the campaign, the three major parties are making the final pitch to Ontarians. In an Ipsos poll released on May 9, 74% of Ontarians surveyed said that they wished there were different party leaders to choose from in the current election. Voter turnout has declined steadily in Ontario since 1990, when it was 64.4%. The Ontario election in 2014 saw the first uptick in 20 years as turnout reached 52.1%.

The ability of NDP and Progressive Conservatives to lure disaffected voters or keep them from voting altogether will be a critical factor in deciding the election. A seat projection published by Wilfred Laurier University released on May 30 showed a narrow Conservative majority of 63 seats and estimated that the NDP would collect 51 seats. Some recent polls have shown the NDP pulling ahead and consolidating some of the Liberal vote, which could put them into serious contention.

No matter how the election shakes out on June 7, investors who live in Ontario – and those outside of Ontario — should be paying attention. As we near the election, it is useful to take a look at the potential ramifications for investors. Let's dive in.

Hydro One Ltd. ([TSX:H](#))

Hydro One stock had fallen over 12% as of close on May 31. CEO Mayo Schmidt recently blamed political interference for the stock's struggles as he touted its performance in delivering profits while also slashing rates for customers. The two frontrunners have different visions for Hydro One, but the language has been [equally incendiary](#).

The NDP have vowed to reverse the private sale of Hydro One and intends push for full public ownership. Under this plan, the government would attempt to buy back over 300 million publicly traded shares worth between \$3.3 billion and \$4.4 billion. Considering the currently low stock price, this is likely a conservative estimate.

Doug Ford came out swinging against Hydro One leadership early on, suggesting that he would seek to fire CEO Mayo Schmidt and the entire board of directors. The board responded by adding

protections to Schmidt, which would make it much costlier for a Conservative government to push for a removal.

Hydro One still offers an attractive dividend and a wide moat, but investors should probably expect volatility in the short term, as the company is in the crosshairs of both parties.

Canopy Growth Corp. ([TSX:WEED](#))(NYSE:CGC)

Recreational legalization was a popular issue in the 2015 election, and played a role in driving many millennial voters to the Liberal side. However, sales and distribution ultimately fell to provincial governments.

The NDP has strong ties with the powerful Ontario public sector union bureaucracy, and will likely work in tandem to secure the revenue promised from legal cannabis. Conservative leader Doug Ford hinted at a desire to entertain [private sales](#), but quickly backpedaled when challenged. The Conservative position is ultimately unclear in this regard.

Top producers like Canopy Growth Corp. have advocated for licensed producers to continue private e-commerce sales at the very minimum. The Conservatives may offer leeway in this instance, while an NDP government would see the grip of the public sector tighten on this new industry.

Taxes, taxes, taxes

In May, **Magna International Inc.** ([TSX:MG](#))([NYSE:MGA](#)) CEO Don Walker said that it was becoming more costly to do business in Ontario. The United States has also put increased pressure on these businesses, with huge tax reforms and a push for deregulation. **Royal Bank of Canada** ([TSX:RY](#))([NYSE:RY](#)) CEO David McKay has also said that the corporate tax reduction south of the border has resulted in significant capital flight from Canada to the U.S.

The Ontario Progressive Conservatives have promised to lower the corporate tax rate to 10.5% from the current 11.5%. Ford has also vowed to eliminate the foreign buyers' tax that was instituted in Ontario last year. The NDP said that they will increase the corporate tax rate to 13% in order to finance a progressive spending plan. New steel and aluminum tariffs announced by the White House have put added pressure on Canada as the private sphere pushes for additional incentives.

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TICKERS GLOBAL

1. NASDAQ:CGC (Canopy Growth)
2. NYSE:MGA (Magna International Inc.)
3. NYSE:RY (Royal Bank of Canada)
4. TSX:H (Hydro One Limited)
5. TSX:MG (Magna International Inc.)
6. TSX:RY (Royal Bank of Canada)
7. TSX:WEED (Canopy Growth)

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