



## Is Cronos Group Inc. (TSX:CRON) Stock Now a Top Cannabis Pick?

### Description

Investors are sifting through the multitude of cannabis stocks, hoping to pick a winner in the rapidly changing and disruptive industry.

Let's take a look at **Cronos Group** ([TSX:CRON](#))([NASDAQ:CRON](#)) to see if it deserves to be on your [buy](#) list.

### New deal

Cronos saw its stock surge more than 15% on Sept 4 after the company announced a \$122 million deal that will see it partner with **Ginko Bioworks**, a firm that specializes in the genetic engineering of plants.

Under the agreement, Ginko will work with Cronos to identify rare cannabinoids in marijuana plants, pull out the DNA, and then reproduce the desired components in a lab setting. It all sounds rather sci-fi, but the news obviously hit a nerve with the market.

What's all the fuss?

The marijuana market is rapidly moving beyond smokers. Global beverage companies are investing billions to get a piece of the action, and Cronos is betting that lab-produced product will be more consistent in quality and cheaper than going the grow-op route that is being pursued by its [competitors](#).

The idea makes sense and could completely disrupt an industry that is still in its early stages of evolution.

This doesn't mean that growing plants is already outdated. Cronos is still ramping up its production capacity and the launch of the recreational cannabis market in Canada is going to create significant demand from pot smokers. In addition, the medical marijuana market is growing globally. However, analysts are already pointing to falling prices, and as weed becomes a commodity, profits on that side of the industry could get squeezed.

## Should you buy Cronos?

The stock has been extremely volatile in the past month. The share price surged from \$7.48 on August 15 to above \$16 on August 29, supported by speculation that the \$5 billion investment in **Canopy Growth** by **Constellation Brands** would be the beginning of a rush by beverage producers to scoop up positions in Canadian cannabis companies. A report that **Diageo** was in discussions with unnamed players extended the initial rally.

However, Cronos took a big hit August 30, falling back below \$12 per share after a report from Citron Research, the famous short seller, said the company's valuation was too high. Citron claims Cronos is trailing its peers in the cannabis race, citing distribution agreements with the provinces, weak international sales, and low spending on research and development.

At the time of writing, Cronos trades at \$14.65 per share, giving it a market capitalization of about \$2.6 billion. That's expensive for a business that reported Q2 2018 revenue of \$3.4 million and operating income of \$490,000.

At this point, all of the stocks in the cannabis space are trading at scary valuations, so you have to be careful putting money to work anywhere in the sector. The Ginko agreement is interesting, but it's too early to tell if that will help Cronos leapfrog its competitors.

As such, I would look for other opportunities today.

### CATEGORY

1. Investing

### TICKERS GLOBAL

1. NASDAQ:CRON (Cronos Group)
2. TSX:CRON (Cronos Group)

### PARTNER-FEEDS

1. Msn
2. Newscred
3. Sharewise
4. Yahoo CA

### Category

1. Investing

### Date

2025/07/27

### Date Created

2018/09/05

### Author

aswalker

default watermark