



Marijuana Mania Has Subsided: Will This Company Survive the Crash?

Description

Canada made history recently. October 17, 2018, is the date to remember as the moment when marijuana became legal. As the first G7 country to legalize recreational marijuana and the second country in the world, Canada sparked investors' attention.

October 17, didn't have a desirable effect on **Cronos Group's** ([TSX:CRON](#))([NASDAQ:CRON](#)) stock price. In fact, Cronos took an over 40% plunge from an October 15th high of \$15.20 to \$8.99 on October 29. This had the effect of wiping out most of the 70% gains in August. The marijuana industry as a whole underwent a massive correction after the legalization date. Despite all of this, there are still indications of a bullish case for Cronos.

With a global footprint (operations on four continents) and as a vertically integrated cannabis company that produces and sells legal marijuana, Cronos has the competitive advantage of being an already established company with a strong financial background. The company has ambitious plans for the future.

Looking at the financials

A look at the 2018 interim consolidated statements of financial position reveals a strong cash position built into the first six month of the year. More precisely, almost 10 times more cash is available for expanding and financing operations, which is a sign of a sound business management and healthy integrated operations.

The gross profit growth rate is promising, too. It quadrupled in the first six month of 2018 compared with the same periods last year and rose more than six-fold in Q2 2018 compared with Q2 2017.

What's interesting is that the strong financial results belong to a period prior to the moment when Canada legalized cannabis consumption. While the impact on Cronos's financial statements won't appear anytime soon, it is only reasonable to assume the company will positively benefit from it.

Estimates show that the sales of Canadian marijuana will exceed \$4 billion in the first 12 months alone, making it a lucrative business to be in and operate in an integrated manner.

The company started to expand its production capacity in anticipation of the decision and created a joint-venture with a U.S.-based company to develop branded products and sell across Canada.

Scaling-up production capacity is the name of the game for the period ahead. By early 2019, the company is expected to exceed 50,000 kg in annual production capacity, with expanding plans at its Peace Natural indoor facility, but also building new infrastructure in Israel and Australia.

It is widely expected for the company to cheer the decision at its third-quarter 2018 earnings conference call on November 13. After prepared remarks, the company's management will take questions from the investment community, with the decision in Canada to take centre stage.

Conclusion

With an encouraging positive net income at the end of 2017, Cronos is set to benefit from the new regulations. Providing there's no negative surprise on the Q3 earnings call, the company stands to benefit from the expanding marijuana business.

While the stock isn't spared by cyclical fluctuations, a solid integrated business will stand to reap the benefits of the new horizons in the marijuana business.

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1. Cannabis
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