



Is Cronos Group Inc. (TSX:CRON) a Buy Right Now?

Description

The pullback in the share prices of Canadian [marijuana stocks](#) has investors wondering which pot companies might be attractive to buy right now.

Let's take a look at **Cronos** ([TSX:CRON](#))(NYSE:CRON) to see if it deserves to be in your [cannabis stock](#) portfolio.

Financial results

Cronos just released its latest quarterly results. Revenue for the three months ending September 30 came in at \$3.8 million compared to \$1.3 million in the same period last year. The company sold 514 kg of cannabis compared to 164 kg in Q3 2017.

The rise is attributed to increased production and growing shipments to both the Canadian and international medical marijuana markets, as well as the initial supplies sent to the Canadian provinces ahead of the opening of the recreational adult-use cannabis market. Cronos has supply agreements with Ontario, British Columbia, Prince Edward Island, and Nova Scotia.

Cronos recently complete the construction of a 286,000-square-foot production facility, and the first round of cultivation is expected by the end of 2018. In addition, the company is planning to build a new 850,000-square-foot greenhouse in Kingsville, Ontario. The site will eventually produce 70,000 kg of cannabis per year.

Once the new facilities are in full production, Cronos expects to expand its portfolio of supply agreements to include additional provinces.

Research focus

Cronos is planning to disrupt the young cannabis market through innovative research and development. The company has a partnership with Ginko Bioworks that will see the two companies

produce cannabinoids in a lab setting that will replicate those that are currently taken from the plants. The initial focus is on eight specific cannabinoids that would have significant commercial value for pharmaceutical or consumable applications.

The goal is to bypass the need to spend on expensive cultivation and extraction facilities.

In addition, Cronos recently announced a sponsored research agreement with the Technion-Israel Institute of Technology. The goal is the study the potential benefits of using cannabinoids for treatment of skin disorders. The pre-clinical studies will take place over the next three years.

International

Cronos has launched a new joint venture in Colombia. The partnership, named NatuEra, will develop, cultivate, and export cannabis-based medical and consumer products for Latin America.

Should you buy?

Cronos has traded in a range of \$4-20 per share over the past year. The recent drop in the market brought the stock down from the highs to the current price of \$10.80. That puts the market capitalization at roughly 1.9 billion.

Based on the company's existing revenue stream, the stock is very expensive, so investors have to believe Cronos will get its new facilities up and running as expected and secure the necessary supply agreements.

The partnership with Ginko Bioworks is worth watching. If the companies are able to meet their goals of producing large volumes of cannabinoids in the lab environment, there could be significant upside potential for the stock.

At this point, however, I would keep any new investment small, given the early stages of the research agreements.

Some pundits speculate Cronos could become a takeover target, as the industry continues to consolidate, but betting on a big premium over the current stock price would be risky.

If you are not comfortable with the cannabis stock valuations, other disruptor opportunities are emerging in the market today.

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aswalker

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