

## This Small Cannabis Grower Could Threaten Canopy Growth Corp (TSX:WEED) Stock

### Description

**Cronos Group** ([TSX:CRON](#))([NASDAQ:CRON](#)) may not be the fastest-growing Canadian marijuana stock in the near term, as its production ramp-up is expected much later in 2019, but the firm has some highly promising long-term plans that could place it among market-leading cannabinoid producers in the next few years.

The company reported a 186% year-on-year revenue growth to \$3.76 million during the quarter to September 30, 2018, and realized nearly 11% sequential growth from the June quarter, but the company may not generate as much revenue as closer peer **Aphria**, as its production capacity will only substantially increase late 2019, as most other smaller players.

While near-term growth prospects may not be as spectacular as short-term investors may like, the long-term outlook could be greatly promising for this growth stock.

There's a seemingly rapid change in customer tastes in the cannabis market with the dried flower market fast losing its lustre to smarter and classy cannabis oils and capsules. Cannabinoids could become a production line ingredient, and the trend could evolve as edibles and cannabis-infused beverages come on the market in a few months' time.

In that premised market scenario, the firm that can cost effectively produce cannabinoids like THC and CBD will be the biggest winner, and Cronos Group is looking to fit this profile well.

The company has partnered with a fast-growing biological technology innovation firm Ginkgo Bioworks in a partnership meant to produce cultured cannabinoids through a fermentation process, bypassing the time-intensive, space-intensive, and financially expensive extraction plant investments.

The duo intends to produce the quality, pure THC, CBD, and six other rare cannabinoids that current extraction technology can't cost effectively produce from the cannabis plant from DNA printing.

### The magic

Ginkgo Bioworks promises to work some biological tech "magic" in the cannabis space by technically "printing" cannabinoids from genetics information produced by Cronos Group, and if the technology works, there won't be any need for marijuana cultivation and extraction plant investments anymore.

By leveraging existing fermentation infrastructure from beer breweries and pharmaceutical contract manufacturing operations, the duo could quickly and cost effectively produce, in large volumes, eight target cannabinoids from custom yeast strains.

Now, that's disruptive.

## A threat to Canopy Growth?

The Cronos Group-Ginkgo Bioworks duo targets to produce a kilogram of pure cannabinoids at a cost US\$1,000, and that translates to \$1.31 a gram of cannabis extracts at today's currency exchange rate.

Conventional technology is said to be capable of producing a kilogram of purified cannabis extracts at more than US\$5,000, and that is a best-case scenario that may not yet exist in the industry.

I am eagerly waiting for **Canopy Growth** ([TSX:WEED](#))(NYSE:CGC) management's promise to report production cost per milligram of cannabinoids when they [discontinued reporting on cash costs to produce a gram](#) of dried cannabis earlier, but if the cost of producing a gram of the whole bud and leaves, with all impurities and biological matter is averaging over a dollar for peers, how much more do the value-added extraction and purification processes add to generate a gram equivalent for cannabis oil?

Cronos could produce a gram of CBD at \$1.31, way cheaper than **Aurora Cannabis's** cost of producing a gram of unprocessed cannabis flower with leaves and twigs last quarter.

Canopy received a \$5 billion investment from **Constellation Brands** recently, and the team intends to develop new products that may include cannabis-infused beverages. The market is expecting that beer manufacturers and other beverages giants may invest in cannabis growers to guarantee a supply of cannabis extracts.

A breakthrough in Cronos Group's experiments may quickly change investor perceptions, as beer breweries will be capable of being used to produce cannabinoids, even the most rare ones. Arguably, no beverage manufacturer would look anywhere besides Cronos Group for ingredients for marijuana-flavoured beverages.

## Foolish bottom line

Cronos Group and Ginkgo Bioworks could violently disrupt the marijuana industry if their attempt to design and print cannabinoids using biosynthesis works cost effectively on a large scale, and the success of the project could catapult Cronos's stock in the next three years.

At the same time, the breakthrough could threaten the premium valuation on Canopy's stock, as its cannabis-infused beverages projects become inferior on a cost-benefit analysis, unless the cannabis giant is also pursuing similar researches, as biotechnology innovations grow rampantly.

### CATEGORY

1. Investing

### TICKERS GLOBAL

1. NASDAQ:CGC (Canopy Growth)

2. NASDAQ:CRON (Cronos Group)
3. TSX:CRON (Cronos Group)
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brianparadza

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