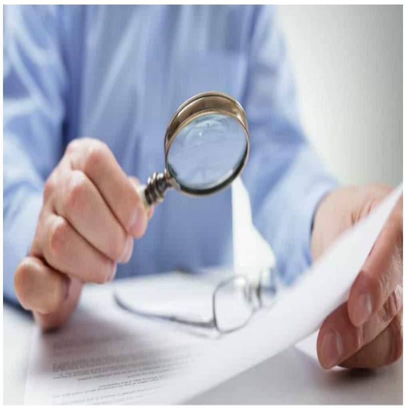

Better Cannabis Stock: CannTrust Holdings Inc. (TSX:TRST) vs Cronos Group Inc (TSX:CRON)

Description

Some cannabis firms have somewhat similar operating profiles, but the wide valuation differences on their stocks can be mind boggling. **Cronos Group Inc.** (TSX:CRON)(NASDAQ:CRON) and **CannTrust Holdings Inc.** (TSX:TRST) share somewhat similar production and expansion strategy profiles but there's a massive difference in their market capitalization today. Which among them could be the better marijuana stock to buy right now?

One seems unbelievably cheaper based on several comparable attributes, three of which are discussed below.

Provincial supply agreements

CannTrust Holdings managed to ink nine provincial supply agreements for more than 30,000 kilo grams of recreational cannabis per annum. The company is among the only five Canadian marijuana companies to sign supply agreements with nine or more provinces, others being **Canopy Growth**, **Aurora Cannabis**, **Aphria Inc**. and quite recently **Organigram**.

Cronos Group has only four such agreements for adult-use cannabis deliveries currently.

Provincial supply agreements provide marijuana producers with a valuable product distribution channel. The larger the size of supply agreements and the bigger the number of such supply agreements could mean higher sales revenues, a wider and diversified market reach across the country, and potentially higher operating profits.

Having fewer supply agreements may not automatically mean an outright market exclusion as producers are signing supply agreements with retail distributors, and with other producers with wider access to the provinces, but contracting with another producer or distributor, who then sells to the provinces on a wholesale basis may also mean heavier wholesale price discounts.

It's therefore a significant competitive advantage for CannTrust to have a bigger portfolio of provincial supply agreements than Cronos, and I suspect the former will report higher average realized price per gram of product on recreational sales early next year.

Medical cannabis success

CannTrust grew registered patients numbers to 50,000 by September 30, and further to around 53,000 by November 14. The company has been gaining medical cannabis market share on a rather faster rate post October 17 as competitors focused more on the recreational market with leading producers like Canopy and Aurora organically losing medical marijuana revenues while focusing on the new market.

CannTrust, which is valued at $888 million today, reported revenues of $12.59 million during the last quarter, just a few hundred thousand behind those for US$9.95 billion **Tilray Inc**. during the same period.

On the other hand, a $2.17 billion Cronos Group has been too slow to grow medical cannabis sales, and the company posted a mere $3.76 million revenue last quarter, less than a third of CannTrust's top line.

That said, stocks are valued mainly on the perceived present value of their growth opportunities, but CannTrust seems more capable of executing for growth more aggressively than some close competitors.

Productive capacity in 2019

Productive capacity growth hasn't been phenomenal for both CannTrust and Cronos Group, but big strides have been made recently. CannTrust currently has the capacity to produce 50,000 kilo grams of dried cannabis per annum and the company targets producing over 100,000 kilograms per annum by end of 2019.

In contrast, Cronos boasts a lower current productive capacity of around 40,150 kilograms annually exit 2018. The company has a funded capacity for 117,000 kilograms annually by the end of 2019. However, this capacity is mainly from joint ventures, which means that there is no full control of producing assets.

As long as the recreational market remains undersupplied, CannTrust will dominate Cronos in the near term.

Foolish bottom line

One possible explanation for Cronos Group's higher market capitalization is probably its listing on the NASDAQ, a major U.S. stock exchange. CannTrust recently announced its intention to list on the NYSE. If a listing on a major world exchange unlocks some additional value on a cannabis stock, then CannTrust could experience a significant share price increase soon.

Both CannTrust and Cronos Group follow similar international expansion strategies, with joint ventures being a preferred route as opposed to more expensive outright acquisitions. Cronos Group's experiment with Ginkgo Bioworks could significantly shake the cannabis industry, but the company is yet to significantly capitalize on its Germany distribution agreement.

CannTrust looks significantly undervalued relative to peers, yet it’s one of the rare cannabis players posting positive operating earnings right now, which is strong proof that its business model can indeed practically generate profits from marijuana operations.

If being a closely held stock is another reason for extreme valuation, as in the case for Tilray, then CannTrust, with nearly 37% of its stock held by insiders, may also have the “nice problem” of a relatively limited float and enjoy an elevated share price after a U.S. listing if the market’s love for marijuana stocks remains strong.

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