



Why Cronos Group (TSX:CRON) Is Today's Best Marijuana Play After Altria's (NYSE:MO) Massive Investment

Description

Cronos Group ([TSX:CRON](#))([NASDAQ:CRON](#)) shares popped 22% in a day following news that big tobacco company **Altria** ([NYSE:MO](#)) had taken a 45% stake in the company in a deal worth \$2.4 billion. The deal came at a time when the cannabis market as a whole had been under a substantial amount of pressure with the shares of many pot stocks down well over 50% from their all-time highs reached earlier in the year.

After many months of [speculating about which cannabis player](#) the “heavy-handed sinner” Altria, formerly known as Phillip Morris, would be partnering up with next, we finally got an answer, but the choice of Altria’s dance partner probably came as a surprise to everybody, as Cronos Group has been a relatively under-the-radar player compared to its bigger brothers in **Canopy Growth** ([TSX:WEED](#))(NYSE:CGC) or **Aurora Cannabis**, two big firms that have basked in the spotlight in the mainstream financial media.

Nevertheless, the Cronos-Altria deal had likely been in the making for many months, as Cronos Group’s vertically integrated business model, which has made the company stand out from many of its peers in the space, looked to be a perfect fit for Altria, a behemoth of a company that appears to be on the cusp of a multi-decade transformation into a big cannabis company as tobacco-based products continue their secular decline.

Big disrupted firms continue to “buy the dip” and “average into” marijuana positions

As you may recall, the last few marijuana meltdowns were proven to be strategic entry points for **Constellation Brands** ([NYSE:STZ](#)), which “bought the dip” in Canopy Growth on two separate cannabis corrections. Canopy CEO Bruce Linton noted that he’s keeping the door open to a potential 100% takeover at some point down the road. Should the cannabis market correct violently, Constellation may be hungry to average down its cost basis with another investment.

While buying the dip may be pronounced a “dead strategy” by some pundits as the broader markets move closer to bear territory, many big firms that have been rumoured to be interested in hedging themselves with cannabis have begun to take action as speculators continue to throw in the towel.

After Altria’s 45% Cronos stake, one can’t help but notice that Altria may be following in the footsteps of Constellation with regards to “buying the dip” and averaging into a cannabis position to reduce the associated risks that come with investing in the crazy world of cannabis. Constellation currently has a 38% stake in Canopy. Should an [implosion](#) come to fruition, it looks like both Canopy and Altria will be looking to buying the rest of the outstanding shares of their respective dance partners.

What it means for pot investors

Ever since Constellation Brands rolled up an investment in Canopy, I’ve been pounding the table on Canopy as my significant player in the marijuana industry, referring to the name a must-buy on the dip, because it was the only cannabis kingpin that had a dance partner. Such a big investment was a unique trait that I thought gave Canopy stock a relative level of support (Constellation’s cost basis for its investment) — something that all other cannabis stocks lacked.

Cannabis stocks aren’t for the faint of heart, and while many analysts have attempted to value pot stocks with traditional valuation approaches, I’ve often slammed the use of such techniques as they were essentially a shot in the dark in the seemingly nonsensical world of marijuana.

Instead, I’ve urged investors to focus their efforts on the capabilities of a pot firm’s management team, the unique talents that pot firms possessed, and a dip-buying strategy to avoid being left holding the bag at the expense of weak-handed speculators who’ve probably come straight from the crypto universe.

Indeed, both Constellation and Altria have adopted such a strategy with their investments, and as we head deeper into the post-legalization era, I’d encourage investors to continue to average into positions on deep declines alongside behemoths that are itching to expose themselves to the cannabis market.

Foolish takeaway on Cronos Group after the Altria investment

Cronos Group’s 22% single-day pop was warranted, but I think the stock has a heck of a lot higher to go from here. So, I’d encourage investors to nibble away at the stock now and on any dips that may be on the horizon.

The recent Altria deal not only gives Cronos a relative support level, but I believe it raises the odds that the company will be one of the few cannabis names that’ll be left standing upright should the broader industry experience a catastrophic implosion that’ll see most of its other peers lose most of their value.

Stay hungry. Stay Foolish.

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2. NASDAQ:CRON (Cronos Group)
3. NYSE:MO (Altria Group, Inc.)
4. NYSE:STZ (Constellation Brands Inc.)
5. TSX:CRON (Cronos Group)
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