



Why Cronos Group Inc (TSX:CRON) Might Be the Best Pot Stock

Description

We learned last week that **Cronos Group** ([TSX:CRON](#))([NASDAQ:CRON](#)) would receive a \$2.4 billion investment from tobacco company and Marlboro maker **Altria Group**. It's not the first time we've seen another industry get involved in cannabis, but it's the first time we've seen big tobacco get involved.

Why does it matter?

Up until now, the deals and rumours we've seen have circled around the beverage industry. Big names like **Coca-Cola Co** and **Diageo plc** have been rumoured to be involved in the industry, while **Molson Coors Canada** and **Constellation Brands** have already taken the [plunge](#).

There are a couple of reasons why I see the Altria deal is being more advantageous than a beverage deal.

The first is that there's no guarantee that cannabis-infused beverages will be a hit. It's still an [unproven segment](#) of the market that's still in the very early stages. And while that might suggest a lot of opportunity and growth potential, it also presents risk as well.

Edibles have been legal in various U.S. states, but the hype has surrounded gummy bears and chocolate, and we haven't seen much excitement around drinks. That being said, developing a good-tasting beverage is probably going to be a bigger challenge than simply baking or cooking cannabis into food.

The other reason I'm bullish on the Cronos-Altria deal is because being in the tobacco industry, Altria has a lot of experience dealing with a highly regulated environment where marketing is heavily restricted. While alcohol companies also face challenges in terms of advertising, it's nowhere near the difficulty that tobacco companies face.

It's that experience that will help guide a company like Cronos to grow its market share and prevail in the industry and why I expect big things for the company. While Constellation and Molson may have deep pockets, getting involved in cannabis for those companies will be a very different venture for

them, whereas a tobacco company is much more complementary in that regard.

Should you buy Cronos today?

Cronos has risen 50% in just the past month, and the big concern might be that the stock has run out of upside. The danger in these deals is that hype can take over and send share prices to astronomical levels that make it hard to justify investing.

As of now, Cronos is definitely a bit pricey given its lack of sales (\$12 million over the past 12 months) and a price-to-sales multiple of over 250.

Bottom line

Cronos definitely has a lot of potential given its deal with Altria, but investors might want to wait out for a dip in price before even thinking about investing. We've seen a lot of bearish activity in the cannabis industry lately, and once the hype surrounding the Altria deal dies down, we might see a bit of a correction take place.

Cronos is a stock that I'd keep a close eye on going forward, as it could reap significant rewards as a result of this deal, but not at its current price.

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