



1 Reason Why Cronos Group Inc (TSX:CRON) Is Prepared for Hyper Cannabis Growth

Description

In December, shares of **Cronos Group Inc** ([TSX:CRON](#))([NASDAQ:CRON](#)) popped more than 10% as rumours began swirling that **Altria Group Inc** ([NYSE:MO](#)) was readying a bid to acquire the entire company. With a \$90 billion market capitalization and decades of experience navigating heavily regulated industries, the tie-up would have created a cannabis behemoth.

Soon after, Cronos released a statement confirming that it is “engaged in discussions concerning a potential investment by Altria Group Inc.” Shares rose by another 14%. Three days later, Cronos shares were halted “pending the release of news.”

Finally, on December 7, Altria announced that it would take a 45% stake in Cronos for \$2.4 billion, which worked out to \$16.25 per share, 40% lower than current levels.

Cronos is now the leader in cannabis

The *New York Times* recently ran an article predicting large firms, particularly tobacco companies, will be “unlikely to make major moves in the American market until recreational use of THC products is legal at a federal level.” This makes Altria’s deal with Cronos all the more valuable.

Entering the cannabis market is still fraught with difficulties, particularly because marijuana remains illegal at a federal level. While pot companies like **Hexo Corp** ([TSX:HEXO](#)) have the [blessings](#) of their national governments, Altria is paying billions of dollars to participate in a federally illegal market. This is truly a risk, but one that should pay off big for both companies.

An analyst at Cowen predicts that the cannabis market in the U.S. will reach \$80 billion by 2030. Altria generated \$29.6 billion in cigarette sales last year, so winning a piece of the cannabis pie could make a big difference.

If and when cannabis becomes legal on a federal level in the U.S., companies with the deepest pockets, largest distribution networks, and strongest knowledge of highly-regulated markets will win.

That's why so many large names have scrambled into the [CBD market](#) lately. Today, there isn't a cannabis competitor that's better positioned than the Altria and Cronos partnership.

A full buyout is very possible

Notably, when Altria acquired its 45% in Cronos, it also received warrants to acquire an additional 10% stake for \$19 per share. With current prices well in excess of that strike price, Altria will surely exercise their rights. While it may take some time for this to occur, Altria taking a controlling stake in Cronos is seemingly inevitable.

Once this happens, acquiring the entire company is a real possibility. Altria group already has control over the company, and maintaining two public entities requires additional compliance, regulation, and costs. If the future of Cronos is bright enough to warrant boosting its position by 10%, it would make sense for Altria to go all the way, acquiring 100% of shares.

In this case, a large premium will need to be paid to acquire the remaining 45% of Cronos stock, which is one reason why shares rallied nearly 100% since Altria took its initial stake.

Either way, the future looks bright. With Altria as a partner, Cronos is one of the best-positioned cannabis stocks in a high growth industry. Over time, shareholders have a real chance at cashing in early via a complete buyout.

CATEGORY

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3. TSX:CRON (Cronos Group)

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