



Cronos Group Inc. (TSX:CRON) Is the Weed Stock That Grew 95% This Year: This Is Why You Should Avoid it

Description

Weed companies continue to claim first-mover advantage to lure investors. But no one can actually tell [which one has the decided edge](#). After the collective decline of cannabis stocks in the last quarter of 2018, investors are avoiding repetition.

Cronos Group ([TSX:CRON](#))([NASDAQ:CRON](#)) appears to be the top performer and holds the upper hand. The stock has risen already by 95% from the year-end price of \$14.38. But despite the strong performance thus far, some market analysts believe Cronos is overvalued. It means the stock price could fall any time soon.

The deal buster

Cronos just gained financial muscle after receiving \$2.4 billion from **Altria Group** as part of an investment arrangement. The tobacco giant now owns 45% of Cronos with the option of increasing its stake to 55%. However, investors are far from impressed. Instead of a brighter prognosis, they see a dimmer scenario.

The treasure chest might be overflowing with cash but the production basin is half-empty. This is the expressed concern of many. Production capacity is the key factor to gain substantial market share. Cronos's current market cap is \$5.17 billion, and the company is poised to produce a maximum of 120,000 kilograms annually.

On the contrary, rival **Hexo** is expected to yield 113,000 kilograms annually at best, but its market cap is only about \$1.8 billion. A deal buster right now is Cronos's tail-end position in the race for production capacity build-up or expansion.

International expansion

Cronos's cash position vastly improved with Altria's equity investment. The company has only the

markets in Australia and Israel to boast. The bigger market is in Europe, and Cronos needs to make inroads in medical cannabis to gain entry into recreational cannabis.

There's plenty of work to be done. With Altria's presence, the chances of penetrating the global cannabis market are higher now. Prior to the team-up with Altria, Cronos sealed a deal with Ginkgo Bioworks; they aim to develop genetically engineered yeast strains to bring forth high-quality cannabinoids.

Both partnerships will determine [the success of Cronos moving forward](#). If the work with Ginkgo could produce commercial volumes of cannabinoids, then scaling won't be a problem. Altria needs to be at the forefront of marketing efforts to lock in more deals, especially in Europe. The illusions need to convert to reality.

Cronos made key changes at the senior level to further strengthen the management team. Jerry Barbato, former senior director of corporate strategy at Altria, will be the new CFO, while current CFO William Hilson would serve as the chief commercial officer. The appointments will be effective on April 15.

Less talk, more results

Most of what investors see from Cronos are pipe dreams. The period of talking is over. Investors don't want to hear talk about leading the cannabis industry forward. Tangible results are needed to earn the trust of investors. At this stage, the situation is "enter at your own risk."

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