



Investor Alert: Cronos Group Inc. (TSX:CRON) Reports Slower Revenue Growth and a Bigger-Than-Expected Loss

Description

2019 has brought investors good fortune after a difficult end to 2018.

With this, we have seen [cannabis stocks](#) like **Canopy Growth** ([TSX:WEED](#))(NYSE:CGC), **Aurora Cannabis** ([TSX:ACB](#))(NYSE:ACB), and **Cronos Group** ([TSX:CRON](#))([NASDAQ:CRON](#)) rally 62%, 94%, and 90%, respectively.

Those are pretty mind-blowing returns, but let's focus on fundamentals.

Expectations are everything...

Cronos Group stock opened down on the day of its fourth-quarter earnings release, as the company reported fourth-quarter 2018 results that showed a net loss of \$11.6 million, or \$0.06 per share, compared to a profit of \$2.1 million, or \$0.01 per share, in the same period last year, as soaring costs took their toll.

Just as important, revenue came in at \$5.6 million, up from \$1.6 million last year, but well below expectations.

With cannabis stocks, expectations are everything.

Because the stocks are pricing in such high expectations, it doesn't really matter if revenue growth was an impressive 250%. What matters is that it was below what the stock is pricing in.

The longer we have to wait for the numbers we are expecting to come to fruition, the greater the risk in these numbers, and hence the more we have to discount them.

...and they are coming down

With Canopy Growth stock trading at 131 times sales, consensus earnings estimates in the next two years have come down significantly. For this year, prior expectations were calling for a loss of \$1.47 per share, and they are now calling for a loss of \$1.78 per share.

That's 21% lower — pretty significant.

With Aurora Cannabis stock trading at a price to sales of 105 times, consensus earnings estimates have also been coming down. 2019 will see more losses, with an expected \$0.22-per-share net loss expected as expenses continue to rise. The consensus 2020 EPS estimate has come down 50%, the 2021 estimate has come down 13%, and the 2022 estimate has come down 13.5%.

So, although cannabis stocks have blown the lights out again so far in 2019, in my view, investors should continue to think about marijuana stocks as trading opportunities, remaining mindful of the downside risk, especially in a vulnerable market.

The long-term value of any one of these marijuana stocks is highly uncertain and subject to change given the lack of visibility and rapidly changing qualities of the marijuana industry and its constituents.

The [stocks are expensive](#) and still trading on sentiment — excitement about marijuana's potential, which is huge — but if they have gotten ahead of themselves, how long will it take for this potential to catch up to the stock prices?

Big partnerships are a positive, with the **Altria** partnership being game-changing for Cronos. It is this type of confidence and financial backing that can give investors more confidence in the sector and specific stocks.

CATEGORY

1. Cannabis Stocks
2. Investing

POST TAG

1. Cannabis
2. Editor's Choice

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2. NASDAQ:CGC (Canopy Growth)
3. NASDAQ:CRON (Cronos Group)
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