



Marijuana Stocks: Is Cronos Group Inc. (TSX:CRON) a Buy?

Description

It's not too convincing to stay loyal to **Cronos Group** ([TSX:CRON](#))([NASDAQ:CRON](#)) stock after seeing its fourth-quarter earnings report. The [marijuana producer](#) has delivered sales much lower than market expectations, raising questions about its rich valuations.

In a report released on March 26, Cronos reported that sales for the quarter, the first full period after Canada legalized recreational consumption, were \$5.6 million, missing analysts' expectations of more than \$10 million.

The sales number also showed that Cronos, in which tobacco giant **Altria Group** has \$2.4 billion strategic investment, was behind than its competitors in capturing the share of recreational pot market in Canada.

For example, **Canopy Growth** and **Aurora Cannabis** had quarterly revenues of \$83 million and \$54 million, respectively, while **Hexo** posted revenues of \$13 million.

Long-term value creation

From the management's perspective, this performance shouldn't cause worry for investors. CEO Mike Gorenstein said the company has taken a different route to create long-term value for investors.

It's investing in areas of the marijuana supply chain, such as developing branded products and intellectual property, rather than cultivation and production capacity.

"This focused approach is proving successful and analogous industries, such as consumer packaged goods in pharmaceuticals, and we think it will prove successful in the cannabis industry as well," he told analysts on a conference call as cited by **Reuters**. "In other words, you can expect our focus to be on making the cheese, rather than raising and milking the cows."

That response still didn't satisfy some analysts who cut the Cronos's price target. **Canaccord Genuity** analyst Matt Bottomley, who lowered his rating for Cronos after the Q4 results, said earnings pointed to a soft start.

“As we believe CRON’s valuation was somewhat stretched at Altria’s investment price of \$16.25, we are lowering our recommendation primarily on valuation,” he said in a note.

Hurt by these negative sentiment, [CRON stock](#) has seen a major sell-off, extending its past-month decline to 23% at the time of writing. Despite this plunge, Cronos stock, trading at \$24.39, is still up 70% this year, showing that investors believe in the company’s long-term growth story.

Bottom line

With so little data available about the top marijuana companies’ past performance and growth potential, it doesn’t seem a right approach to punish CRON stock after its first full quarter report.

Any weakness in its stock may offer a good buying opportunity for long-term investors, especially when the company is backed by Altria Group, which has deep pockets and expertise to help this weed producer grow.

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