



1 Marijuana Stock I'd Avoid at All Costs

Description

The boasting by marijuana companies continues despite the obvious crosscurrents the sector is facing. People are served with the news that massive profits are forthcoming. That's music to investors' ears. However, let's hope we're not falling for something that's intended to deceive.

Cronos Group Inc. ([TSX:CRON](#))(NYSE:CRON) forged an ideal partnership with Marlboro cigarette maker **Altria Group Inc. ([NYSE: MO](#))** but losses widened in the latest quarterly earnings report. The next report is scheduled on May 9, 2019 and the company should start delivering on its [growth projections](#).

Altria's entry boosted Cronos

When CRON's price rose in March, the primary catalyst was Altria's entry and nothing more. The Richmond, Virginia-based company wasted no time in putting in 45% equity. The ownership could increase to 55% if they so desire in the next four years. Altria couldn't pass up on the opportunity to synergize with a major cannabis industry player.

Some analysts contend that Altria paid a hefty premium for fear of missing out on the potentially billion-dollar earnings from a rapidly-growing sector. Also, Altria was attracted by the generous valuations of Canadian companies lately. The synergy of Altria's core business with cannabis will play out better in the future.

Cronos' pressing problem

The fortune received by Cronos Group from Altria was pivotal. All eyes are on the company and how it will utilize the \$1.8 billion. Naturally, Altria would be expecting off-the-chart returns. For starters, enhancing production capacity is the first order of the day.

At present, Cronos could only muster a peak annual output of 120,000 kilograms. That's not enough to put them on the list of top five producers. That total yield would come from the combined production of

Cronos GrowCo, Cronos Australia, Cronos Israel, Original BC, and Peace Naturals.

Unfortunately, only a dramatic increase in production capacity would enable Cronos to compete with bigger industry peers. The most likely option is to take the acquisition route and other organic means to bump up production. If Cronos Group is successful, expansion to international markets is imperative.

The countries that have allowed the sale of medical marijuana have grown to 40. This is a huge catch basin in case of domestic oversupply. Cronos is present only in Australia, Germany, Israel, and Poland. Altria's investment can be spent to build the overseas infrastructure in preparation for the bigger markets.

Another setback is costly

The deal generated [a short-lived frenzy](#) last March. CRON soared to nearly \$32.00, but has fallen - 28.64% with the price currently at \$22.67. We don't exactly see which of the two would benefit more from the new partnership. With the declining tobacco sales, Altria is seeking a new source of growth or revenue stream.

In the recent quarter, analysts estimated \$10.8 million in revenue. However, Cronos fell short of expectations by 51.85%. The company only reported revenue of \$5.6 million while posting a loss of \$0.11 per share for the fiscal year 2018. CRON is bound to suffer a monumental rebuff by investors with another dismal showing.

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