



Why Cronos Group (TSX:CRON) Declined Despite Posting a Huge Profit in Q1

Description

Cronos Group Inc ([TSX:CRON](#))([NASDAQ:CRON](#)) released its quarterly results last week, which showed sales more than doubling from the previous year. The company also recorded a massive \$428 million profit during the quarter as well. However, the stock still declined 7% last week, leaving some investors scratching their heads.

Why is the stock down?

Although Cronos saw a big increase in sales with revenues reaching \$6.5 million, it still fell well short of the \$7 million expected by analysts. And then there's the company's net income figure, which clearly looks inflated. If not for a gain on the revaluation of its derivative liabilities of \$436 million, Cronos would have landed in the red again. These liabilities stem from the investment that **Altria** made in the company late last year. Cronos had a total of \$458 million from that and other gains propping up its bottom line this past quarter.

And so while profits were impressive, they were also grossly inflated and not very helpful in assessing the company's results. If we look at adjusted EBITDA, which pushes out these abnormal line items, then Cronos' comes in at a loss of \$8.9 million, which is significantly more than the \$1.5 million it recorded a year ago.

To make matters worse, the company doesn't see things get any better either. On the earnings call, CFO Jerry Barbato said that "As we continue to invest in our business, our brands and R&D initiatives, our adjusted Ebitda will likely decline over 2019 but position the company for accelerated growth in 2020."

Investors shouldn't be surprised, especially given we've seen marijuana companies continue to post bigger and bigger losses, even as sales have been rising. The negative outlook combined with the company missing estimates and recording an adjusted loss for the quarter all resulted in the stock being down despite the quarter initially looking very strong.

Should investors consider buying Cronos on the dip?

Cronos declined by more than 7% last week, although the stock did stage a recovery on Friday after a big sell-off on Thursday when the results were first announced. Year to date, the stock is still up more than 40%. And even with the increase in sales, Cronos still trades at around 350 times its sales, a [significant multiple](#) by any standard. Even its current run rate would put it at \$26 million in annual sales, which would still result in a multiple of over 260.

Other marijuana stocks have been producing much more in sales, and for the premium that investors would be paying to invest in Cronos, the stock simply isn't worth it. In [Q4](#), the company also failed to impress investors despite seeing tremendous sales growth in that quarter as well.

Although Cronos has a deal with Altria in place, I'm not convinced that's going to give it an advantage when the edibles market becomes legal. While Altria's deep pockets will help fund Cronos' growth, not having a big beverage partner might prove costly for the cannabis company.

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