



Despite Soaring Revenues, Cronos Group Inc. (TSX:CRON) Is Best Avoided

Description

Cronos Group Inc. ([TSX:CRON](#)) ([NASDAQ:CRON](#)) was widely regarded as one of the pot stocks with the most upsides at the beginning of the year. Until mid-March, the firm's share price grew by as much as 100%.

However, things began to unravel when Cronos released its less than impressive [fourth-quarter earnings report](#). Cronos hoped to gain investors' trust back with its Q1 2019 results, but it was largely a continuation of what we observed in its previous earnings report.

Revenues jump again

In a common theme within the marijuana industry (especially since the legalization of recreational weed in Canada), Cronos managed to improve its revenues again. The company reported revenues of \$6.5 million (beating the consensus analyst estimates), up 120% year over year, and up 15% from the previous quarter.

Cronos seems to be making some headway in the high-margin cannabis oil market, which represented 23% of the company's revenues compared to only 9% in Q1 2018. Many pot companies are desperately searching for ways to enter higher-margin segments, a much better opportunity than the dried cannabis markets. Thus, this is a positive thing to note about Cronos' core operations.

Cronos records a net profit, but with a huge asterisk

Few people expected Cronos to record a profit, but that is exactly what the company managed to do. Cronos recorded a net income in the amount of \$427.7 million. However, this figure is wildly misleading.

The Toronto-based firm benefited from the fact that its share value has declined recently, which means Cronos earned an unrealized gain on the warrants issued to Altria (which are valued based on Cronos' share price). That's hardly the type of profit most investors want to see.

More mixed news

There are definitely some encouraging signs in Cronos' latest financial results. First, the company is still in the process of increasing its production capacity, which should drive revenue growth in the future. Cronos can currently produce in excess of 40,000 kilograms of marijuana per year, but the company's peak production capacity estimates are almost three times higher than that.

Second, let's not forget that Cronos is in possession of a lot of cash thanks to its partnership with Altria, which means that there is no need for the pot company to rely on dilutive forms of financing to fund growth operations.

However, Cronos' operating costs increased once again, representing 214% of sales, an increase of about 75% year over year. It will therefore be critical for Cronos to find ways to cut operating costs if the firm wants to be one of the leaders in its industry.

Investor takeaway

So far this year, Cronos hasn't justified the trust investors put in its stock. Though Cronos' share value defied gravity for the first three months of the year, the company has been brought back to earth largely due to its [lackluster financial performance](#). Some might wonder whether now is a good time to buy the dip, but until Cronos shows tangible improvement, I think it's best to stay away.

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