Should You Buy Cronos Group (TSX:CRON) on the Dip?

Description

Cronos Group (TSX:CRON)(NASDAQ:CRON) is perhaps the most expensive cannabis stock as far as forward valuations are concerned. It's also been the target of several analyst downgrades thanks to its premium multiple to its peers. With the entire sector experiencing a pullback during the past few weeks, here are two reasons why you should buy Cronos, and one reason why you shouldn't.

Altria partnership gives it unprecedented scale

It goes without saying that **Altria's** controlling interest in Cronos gives it access to scale that rivals only **Canopy Growth**. For example, Altria's retail footprint spans 230,000 physical locations across the United States, and if the company's previous investment in e-cigarette maker JUUL is any indication, we can anticipate the tobacco giant to promote Cronos's products via premium shelf space, when Cronos begins its aggressive CBD ramp up in 2020.

But more than just a $2.4 billion liquidity injection and shelf space, the Altria investment means Cronos will benefit from Altria's expansive marketing and procurement talents, and finally (hopefully) be able to tackle the supply chain bottlenecks the company has been facing since inception.

For context: Cronos ended its latest quarter with just 181 kgs, or $1 million, of finished dried cannabis and 200 kgs of oils, also worth $1 million. This is a far cry from rivals such as **Aurora**, which ended Q1 with $57.3 million worth of dried cannabis and $3 million worth of oils.

Altria: more than tobacco

Most people forget that Altria is also a master of alcoholic beverages. In 2018, Altria reported $691 million in revenues from its wine business and holds a 10% economic stake in **AB Inbev**, the world's largest brewer and distributor.

This level of beverage expertise is almost rivaled by few, and we can anticipate Cronos to leverage this channel once we see the edibles market (particularly CBD-infused beverages) come online.

Furthermore, Altria's investment grants Cronos an enviable level of legitimacy in the eyes of "mainstream" consumer products manufacturers and institutional investors. This mainstream appeal can already be reflected in Cronos's latest hire for its chief innovation officer, who had extensive experience with **Mondelez International**.

But what are you paying for?

Don't let the recent pull back fool you: Cronos remains an expensive stock, particularly as its core business has lagged its competitors by a wide margin. Not only did Cronos report abysmal realized prices, but it barely managed to secure 4.2% of total dried cannabis sales in Canada and less than 1% of oils volume (based on StatsCan numbers and company filings) during its latest quarter.

Moreover, with just two recreational brands to its name, "COVE" and "Spinach" (which appear to have underwhelming user response on popular cannabis review sites) I just don't see the company making massive strides in market share. In fact, minus the Altria investment, I would estimate the company to be trading at a fraction of its market cap. Therefore, a bet on Cronos here is a bet on Altria turning things around. And at 23 times FY 2020 sales (factoring in a very optimistic CBD ramp up in the U.S.) that is a very lavish bet, particularly as a name like Canopy Growth trades at 10 times consensus FY 2020 sales.

In summation, the $2.4 billion question this comes down to is: is Cronos really worth twice as much as Canopy, thanks to Altria? I'll let you decide.

CATEGORY

1. Cannabis Stocks
2. Investing

POST TAG

1. Cannabis

TICKERS GLOBAL

1. NASDAQ:CRON (Cronos Group)
2. TSX:CRON (Cronos Group)

PARTNER-FEEDS

1. Msn
2. Newscred
3. Sharewise
4. Yahoo CA

Category

1. Cannabis Stocks
2. Investing

Tags

1. Cannabis

Date
2025/08/16
Date Created
2019/07/19
Author
vmatsepudra