



Like Bees to Honey: Cronos Group (TSX:CRON) Stock Attracts Huge Investments

Description

The Cronos Group ([TSX:CRON](#))([NASDAQ:CRON](#)) is set to soar on the **Toronto Stock Exchange** (TSX) next year.

On Thursday, the company announced the acquisition of four subsidiaries of Redwood Holding Group for US\$300 million. On the news, trading volume increased by 60% above the average to over seven million shares. The increased trading activity continued throughout Friday.

In addition to the acquisition, the Cronos Group gained two new leaders from the agreement. Redwood founders Robert Rosenheck and Cindy Capobianco will continue to manage the acquired subsidiaries. The two [cannabis entrepreneurs](#) bring niche expertise in marijuana cultivation and distribution logistics.

Redwood Group

Founded in 2017 in Kansas, the Redwood Group is a private company based in the agricultural heartland of the United States. The location suggests that the company and its founders possess superior knowledge of the farming techniques required to cultivate quality cannabis.

Redwood Holding Group specializes in the development of hemp-derived cannabidiol (CBD) products. Online skincare and consumer product sales under the brand Lord Jones drive Redwood's success in the adult-use market. Consumers are attracted to Lord Jones hemp oil, because it is certified, pure, and contains natural phytocannabinoids and terpenes.

The Redwood Group owns cannabis storage, cleaning, and processing facilities in the United States and Canada. Thus, the acquisition brings critical production equipment and processing capabilities to the Cronos Group. The additional production capacity will help Cronos meet growing demand in 2020 and beyond.

Cronos Group

The Cronos Group is a global cannabis research and development firm, boasting a supply and distribution chain spanning nearly all continents. Founded in 2012, the company produces cannabinoid oil under top brands such as Peace Naturals, Cove, and Spinach.

In the past year, Cronos increased net receivables by an impressive 75%. Moreover, the company also saw a surge in liabilities by almost five times last year's expenses — the most significant increase in liabilities in the industry. The financials indicate that the company is making substantial investments in cash versus debt.

The low-debt financing strategy is good news for Cronos shareholders. The stock, which currently sells at just under \$14 per share, has lagged behind competitors such as **Canopy Growth**.

Foolish takeaway

The Cronos Group is headed for a rise in market price in the next year. Speculative volatility has left many stocks over or undervalued on the stock exchange. Cronos is one of those undervalued stocks, and its reported financials look too clean to not attract new equity investment.

The company reported a levered free cash flow of \$1.56 billion last year. Meanwhile, all major competitors, including Canopy Growth and **Aurora Cannabis**, posted negative free cash flows. Levered free cash flows are the remaining cash from operations after a company fulfills expense obligations.

Based on the financial data, the Cronos Group is a [low-risk cannabis](#) investment with fiscally responsible leadership. Moreover, Tax-Free Savings Account and Registered Retirement Savings Plan investors should feel comfortable with the reported return on equity. The Cronos Group has posted the highest return on investment in the industry at nearly 75%.

As the most undervalued cannabis stock on the TSX, Cronos is surely set to soar in the next year.

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