



Is Cronos (TSX:CRON) Attractive After a Recent Pullback?

Description

Cannabis investors have had a rough ride in the last 12 months. Several stocks lost significant value due to regulatory issues and missing analyst target estimates. Cannabis stocks were overvalued and expensive.

Shares of **Cronos Group** ([TSX:CRON](#))([NASDAQ:CRON](#)) have fallen 46% since March 2019. Despite the recent pullback, the stock has returned a mind-blowing 1,825% since its IPO back in December 2014.

So, will Cronos stock move higher, or is it still trading at a premium? The company is valued at \$5.3 billion, which means it's trading at 117 times sales. Comparatively, **Aurora Cannabis**, **Tilray**, **Canopy Growth**, and **Hexo** are trading at 30, 16.7, 18.6, and 22.3 times sales, respectively. Cronos is trading at a hefty premium compared to peers.

Cronos in the midst of extravagant growth

Similar to other top cannabis companies, Cronos has experienced more than impressive revenue growth. In the second quarter, sales rose 200% to \$10.2 million. The company booked a profit of \$251 million, which [included a \\$263.9 million gain](#) from warrant revaluations.

Now, analysts expect Cronos to post revenue of \$45.26 million in 2019 — a year-over-year growth of 287.7%. Revenue is also estimated to rise by 233% to \$150.72 million in 2020. Unlike most cannabis stocks, Cronos is expected to be profitable by the end of 2021. Analysts expect Cronos's net margin to be a healthy 12.6%.

Growth via acquisitions and partnerships

Cronos is banking on inorganic growth to drive sales. Its recent acquisition of Lord Jones, which is a U.S.-based cannabidiol brand, will help it gain traction in the United States.

In 2016, Cronos acquired Peace Naturals, which was granted the first non-incumbent medical licence by Health Canada. Peace Naturals distributes products directly to consumers and is primarily focused on the medical cannabis space.

Cronos has entered a joint venture with Israel-based Kibbutz Gan Shmuel — a commercial kibbutz and food company. This joint venture helps Cronos produce high-quality medical cannabis in a 45,000 sq. ft. greenhouse facility under ideal climate conditions. Gan Shmuel currently exports to 35 countries across Asia and Europe.

Cronos has also partnered with Australian-based New Southern Capital. It has received medical cultivation, research, and manufacturing licences. The 120-acre campus in Victoria will expand annual production capacity by 2,000 kg.

The huge market opportunity in Europe

Europe is fast becoming the largest international market for medical marijuana. Cronos has targeted growth in European markets. It has a five-year supply contract with Germany's Pohl-Boskamp, which distributes products to 10,500 pharmacies in the country. Cronos has claimed that there is a large shortage of medical cannabis in Germany.

Cronos has another five-year supply agreement with Poland-based Delfarma, which distributes products to 5,000 pharmacies and 200 hospitals. It has a distribution network to reach 40% of the Polish population.

The verdict

Cronos sold 1,584 kgs of cannabis products in the second quarter. This is way lower compared to Aurora Cannabis's quarterly production capacity of 25,000 kgs. It has impressive growth metrics, but so do most pot stocks.

Cronos looks like the most expensive pot stock among peers considering its valuation and low production capacities. The stock might still move lower considering the rampant volatility in the cannabis sector.

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