Marijuana Investors Beware: 1 Pot Stock I Wouldn't Touch

Description

Pot stocks have sold off violently of late, and while they may be more attractive to value-oriented investors, some remain absurdly overvalued and ripe for a further plunge into the abyss. In a prior piece, I went over the pot stocks to scoop up amid the recent marijuana hangover; this piece will focus on a name that's poised to become a laggard relative to its peers in the space.

Without further ado, enter **Cronos Group** (TSX:CRON)(NASDAQ:CRON), a marijuana producer that looks quite weak compared to its bigger brothers like **Canopy Growth** or **Aurora Cannabis**.

At the time of writing, Cronos stock is down around 50% from all-time highs, but unlike its peers, I think Cronos could have much further to fall thanks in part its absurd valuation (the stock trades at a staggering 189 times sales), continued losses, and its less-than-impressive impressive trajectory.

While Cronos is one of the few cannabis companies to have a deep-pocketed and established investor (through tobacco kingpin **Altria Group**), I'd have to say Canopy's partnership with **Constellation Brands** holds far more potential.

Now, I'm not saying that mixing alcohol with cannabis is better than mixing tobacco with cannabis. Rather, I think non-alcoholic cannabis drinkables yields much more encouraging long-term growth, not to mention the potential synergies that can be created from the dynamic duo.

I see limited, if any, synergistic potential for Altria and Cronos. Frankly, I see the deal as a desperate move for Altria, as cigarette sales continue to downtrend over time. Moreover, the announcement of such an investment is one less big material event to look forward to, as far as I'm concerned.

A weak Q2 with more adjusted EBITDA losses

Earlier last month, Cronos lifted the curtain on its second-quarter results, which weren't that bad. The company benefited from broader industry tailwinds, causing sales in kilograms to double on a year-over-year basis. The real sore spot was the massive $17.8 million in adjusted EBITDA losses.

While it's expected that you need to spend money to make money in such a hyper-growth industry, I'm not a huge fan of the US$300 million paid for Redwood Holdings, which could be the first of many deals to move deeper into the CBD market.

Foolish takeaway

At today's prices, Cronos Group doesn't look nearly as good as some of its industry peers, most notably Canopy Growth. The stock is still expensive, even by cannabis standards, and given the losses will continue mounting to year-end, I'd take a raincheck on the name for now and go with one of its more attractive peers.

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