



Cronos Group (TSX:CRON) May Beat This #1 Pot Stock!

Description

Cronos Group ([TSX:CRON](#))([NASDAQ:CRON](#)) has taken the lead as one of the most popular cannabis stocks trading on the Toronto Stock Exchange. Although it sells for more than \$9 per share, Cronos is still one of the most actively traded pot stocks on the TSX.

The market currently prices **Aurora Cannabis** ([TSX:ACB](#))(NYSE:ACB) at around \$7. In the past 52 weeks, Cronos Group has only lost 12% of its value, while Aurora has dropped 48% this year.

It is hard to compare these two stocks because they are at different stages in their business-development process. Nonetheless, we can infer that Cronos has more growth potential at its stage than the more advanced Aurora.

Aurora announced a 61% consecutive quarter net revenue increase to \$94.6 million last quarter. Meanwhile, Cronos Group only brought in \$10.2 million. Granted, Cronos Group's net revenue did grow over 202% since the same quarter last year and by 58% since the consecutive quarter.

Cronos has definite potential in the marijuana industry, but its stock price relative to Aurora's is misleading. Much of the price movements in cannabis today are the result of price corrections post-speculative bubbles. Luckily, we can still analyze the direction competing stocks may converge.

Cronos sold 11 times less inventory than Aurora

Sales in kilograms paint a similar story. As a more well-established brand, it is natural that Aurora would post higher sales than Cronos Group. Aurora sold more than 11 times the 1,584 kilograms sold by Cronos Group at 17,793 kilograms of marijuana.

Although Aurora boasts higher sales, Cronos Group stock trades for about 1.5 times more than shares in Aurora. Thus, the price premium on Cronos must not represent the current difference in “true value” between Cronos Group and Aurora. Instead, the price difference must be the cause of higher enthusiasm among investors that the Cronos Group may grow to become as successful as Aurora. That is the very definition of speculation.

Cronos Group faces a higher cost of production

Aurora is more efficient at cultivating marijuana in terms of cost to produce at \$1.14 per gram. In its last earnings report, Cronos Group reported a cost of sales before fair-value adjustments of \$3.01. Aurora clearly has an advantage in more optimally scaled production on its side.

The gross margin is the company’s sales revenue minus the cost of goods sold. With a 53% gross margin, Cronos Group is undoubtedly able to compete with Aurora’s last reported gross margin of 58%. This means that Cronos Group has the expertise to scale as efficiently as Aurora over the next year.

Foolish takeaway

Without comparing apples to oranges, Cronos Group has a clear advantage in the marijuana space. None of the other major pot stocks can compete with the annual diluted earnings per share (EPS) of \$0.71 last reported by Cronos. Diluted EPS figures are the most prominent statistics investors trade by on the stock exchange.

By contrast, Aurora’s aggressive growth strategies resulted in a high gross profit of \$67 million last quarter but a lower annual diluted EPS of negative \$0.29. Aurora’s strategy had the benefit of allowing it to compete for market share, while the industry was still new. While true, this could also be the driving force behind Aurora’s lower share valuation relative to Cronos.

The bottom line is, despite Cronos Group’s slow growth leading up to marijuana legalization, its stock will soar over the next few quarters. Savvy Canadian investors should prepare because Cronos has what it takes to overtake even Aurora on the TSX.

CATEGORY

1. Cannabis Stocks
2. Investing
3. Stocks for Beginners

TICKERS GLOBAL

1. NASDAQ:ACB (Aurora Cannabis)
2. NASDAQ:CRON (Cronos Group)
3. TSX:ACB (Aurora Cannabis)
4. TSX:CRON (Cronos Group)

PARTNER-FEEDS

1. Business Insider
2. Msn
3. Newscred
4. Sharewise
5. Yahoo CA

Category

1. Cannabis Stocks
2. Investing
3. Stocks for Beginners

Date

2025/08/24

Date Created

2019/09/29

Author

debraray

default watermark

default watermark