



## Will Cronos (TSX:CRON) and Altria (NYSE:MO) Take Over the Cannabis Market?

### Description

Few cannabis stocks are better positioned than **Cronos Group** ([TSX:CRON](#))([NASDAQ:CRON](#)). That's because it has the backing of one of the most powerful, well-financed, most influential companies on the planet: **Altria Group** ([NYSE:MO](#)).

Today, Altria is responsible for more than half of all U.S. cigarette sales. Its market cap exceeds \$100 billion. That's larger than every Canadian pot stock *combined*.

With a \$3 billion valuation, investors are hoping that Altria can help Cronos become the next cannabis giant. If it ever achieved the same scale as Altria, Cronos shareholders would experiences gains in excess of 3,000%.

Following its US\$1.8 billion investment last year, Altria has plenty to lose if things go sour. That's exactly why this partnership could end up taking over the entire [cannabis market](#).

### This is the pitch

The pot market seems to move at light speed. So much can occur in just a few months. That's why it make sense to go back to the original rationale for Altria's investment in Cronos. Their joint presentation was released fewer than 14 months ago, but few cannabis investors bother digging it up.

The biggest aspect of the pitch was the synergy potential. Altria would be providing proven expertise in brand and product development in highly regulated markets, financial capacity to support growth, plus industry-leading research and development capabilities. Cronos, meanwhile, was already one of the largest cannabis producers in the world, with the team and infrastructure in place to scale rapidly.

In total, Altria took a 45% position in Cronos, with warrants that allow it to increase its ownership to 55% down the road. The investment was made at a 30-40% premium to prevailing prices.

This deal instantly gave Cronos more credibility than all of its competitors. Armed with \$2.5 billion in cash and a global distribution network, shareholders expected the company to take off.

## Revisit the assumptions

Cronos stock did take off for a bit. From November 2018 to March 2019, shares nearly tripled in value. When the cannabis bear market hit that spring, however, no pot stock was spared. Since March, Cronos stock has dropped from \$30 to just \$10.

After the decline, Cronos shares now trade *below* the price Altria paid. If you're looking to put more capital to work, this may be your top opportunity.

Cronos stock now has a valuation of \$3.3 billion. Compare that to legal marijuana sales, which are expected to surpass \$100 billion globally by 2030. Some analysts expect worldwide sales to eventually surpass \$250 billion. That's not surprising considering worldwide tobacco sales surpass \$1 *trillion*.

Even after the drop, this stock looks expensive. It trades at roughly 65 times 2019 earnings. But sales are just beginning to ramp. Based on expected revenues for 2020, the stock trades at 19 times forward sales. That's still pricey, but you start to appreciate how this stock could quickly become cheap.

Armed with its Altria partnership, it's difficult to see how Cronos *doesn't* become a major player in both the Canadian and U.S. markets. *Marijuana Business Daily* expects U.S. sales to triple to \$30 billion by 2023. Full legalization could quadruple that figure quickly.

How much of a share will the Cronos-Altria partnership garner? My bet is a lot, certainly more than is currently priced in. This bet may take a few years to pay off, but it represents one of the best risk/reward tradeoffs in the cannabis industry.

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2. NYSE:MO (Altria Group, Inc.)
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