



## Is Cronos (TSX:CRON) Stock a Solid Long-Term Bet?

### Description

Cannabis investors have lost a significant portion of their investment since the last quarter of 2018. Investors were rightly concerned over the high valuation metrics of pot stocks, and this started the bear run for marijuana companies.

Further, the revenue estimates for most cannabis companies seemed to have been overstated, as most analysts failed to consider the impact of Canada's illegal sales that account for at least 40% of total sales in the country.

This has resulted in high inventory levels for most companies, which has severely impacted profit margins. The slow rollout of retail stores in Canadian provinces has exacerbated these issues, extending the poor run of pot stocks.

There is also the vaping scandal, regulatory concerns, and relative difficulty to raise debt capital that has driven stocks lower by 80% (in some cases) over the last 15 months. However, does this pullback give an opportunity for investors to consider pot stocks once again?

One cannabis company that can gain momentum this year is **Cronos** ([TSX:CRON](#))([NASDAQ:CRON](#)). Shares of Canada's cannabis giant, Cronos, are trading at \$11.18, which is 66% below its record high. Cronos shares went public back in December 2014, and it has gained a monstrous 1,250% since then.

While structural issues will continue to impact marijuana companies in the short term, the total available market in the recreational and medical cannabis space continues to expand. Similar to most pot companies, Cronos is also banking on partnerships and acquisitions to gain traction in the cannabis segment.

### Partnership with Altria Group

In December 2018, U.S.-based **Altria Group** ([NYSE:MO](#)) decided to pump \$2.4 billion into Cronos, and this investment was closed in March 2019, and Altria now has a 45% stake in the firm.

Altria is [one of the largest cigarette companies](#) in the U.S. with a market cap of over US\$100 billion. It has proven expertise in brand and product development in highly regulated markets. With huge cash reserves, Altria can accelerate Cronos's execution and achievement of strategic objectives.

The pot industry is still at a nascent stage, and there are significant opportunities, as new markets regulate the product. Altria is optimistic about its existing device technology investments and expertise to serve as building blocks for cannabis vape products.

Altria aims to leverage its product design, manufacturing, marketing, and distribution capabilities as well as expertise in navigating complex regulatory landscapes. The company's investment is currently worth \$1.72 billion, given Cronos Group's market cap of \$3.84 billion.

In the last quarter, Cronos closed its acquisition of Redwood Holding Group. This transaction provides Cronos with a U.S. hemp-based products platform, which includes hemp-derived cannabidiol-infused skin care, and other consumer products sold through online and retail partner channels south of the border.

## A look at Cronos's stock valuation

Cronos stock has a market-cap-to-forward-sales ratio of 106. However, sales in 2020 are estimated to rise by 213% to \$113 million, which will bring the valuation to reasonable levels. In the September quarter, Cronos sales were up 238% year over year at \$12.7 million, driven by the legalization of recreational cannabis and the Redwood acquisition.

Cronos stock is well poised to take advantage of the multi-billion-dollar cannabis market. The partnership with Altria will provide Cronos with the required expertise in terms of product development, marketing and regulations.

The upcoming December quarter results remain critical for Cronos. Analysts tracking the stock have forecast sales of \$12.9 million in the December quarter. In case Cronos can better these estimates, the stock will move significantly higher.

### CATEGORY

1. Cannabis Stocks
2. Investing

### POST TAG

1. Cannabis
2. Editor's Choice

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1. NASDAQ:CRON (Cronos Group)
2. NYSE:MO (Altria Group, Inc.)
3. TSX:CRON (Cronos Group)

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## **Date**

2025/07/01

## **Date Created**

2020/01/20

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