Will Cronos (TSX:CRON) Stock Fall Below $5?

Description

Cronos Group (TSX:CRON)(NASDAQ:CRON) was once the hottest pot company in the world. From late 2014 to early 2019, Cronos stock rose in value by nearly 4,000%.

The marijuana bear market of 2019 changed everything. Last year, virtually every pot stock lost more than 50% of its value. Cronos went from a $12 billion company to a valuation of less than $3 billion. Cronos stock, which now trades at just $8 per share, is threatening to fall below the $5 mark.

Yet all is not lost. Pot demand in the company's key markets continues to rise. The marijuana bear market, meanwhile, could shake out many lower-quality competitors, allowing Cronos to retake market share. Lastly, the company has a secret weapon that will ensure its long-term success, no matter what happens in 2020.

Play the long game

Early-stage growth markets always go through rapid boom-and-bust cycles. Consider the dot-com boom of 1999. Internet stocks were soaring, just like pot stocks in 2018. Investors were racing to get exposure to a once-in-a-lifetime growth opportunity.

By 2000, internet stocks were being dumped en masse. Many firms went bankrupt. But importantly, some survived. **Amazon** is a perfect example. Even if you'd bought shares at the height of the 1999 bubble, you would still have generated a 2,000% return based on today's prices. If you'd bought *after* the bubble popped, you would have made a 20,000% return.

Buying early-stage growth stocks after the initial hype cycle is a proven way to generate spectacular returns. You just need two ingredients: courage and patience.

After the pot stock bloodbath of 2019, few investors are buying more shares, especially in light of the coronavirus pandemic. But as we learned from Amazon, now is the ideal time to be bold. Like the old saying goes, you want to buy when there's blood in the streets.

There’s another lesson to be learned from Amazon: patience is key. It took nearly two decades for the tech company to grow as large as it is today. Buy-and-hold investors generated the biggest rewards, not short-term profiteers.

The marijuana market will likely follow a similar path after the bubble burst last year. Many competitors will go out of business. Others that survive won’t have enough capital to reinvest for the long term.

What you want to find is pot stocks that are flush with cash and can continue to look to the future. For that, there are few better options than Cronos.

Cronos stock isn’t finished

Short-term stock prices can be difficult to predict, especially during a bear market. What we do know, however, is that Cronos will survive the current crisis with ease.

As of last quarter, the company had roughly $2 billion in cash reserves, with virtually zero debt. With a market cap of just $2.7 billion, you’re essentially buying the marijuana business for only $700 million. That’s a steal considering sales are expected to surpass $50 million in 2020. By the end of next year, analysts anticipate nearly $200 million in sales.

With its cash pile, Cronos can afford to continue investing in the business and growing revenues. Lower-quality competitors will be forced to conserve cash at the expense of long-term returns.

Cronos is in such an enviable position thanks to its deal with tobacco giant **Altria Group**, which infused the company with roughly $2 billion in cash last year.

But the cash pile is simply the first benefit of the Altria partnership. With a $70 billion market cap, Altria knows a thing or two about creating shareholder value. It also knows how to make massive profits using commoditized ingredients. There are countless similarities between tobacco and cannabis, and the value of Altria’s guidance likely spurred the partnership in the first place.

To predict the movement of Cronos stock in 2020 would be a losing game. Short-term results aren’t what successful investors are focused on. Flush with cash and a bargain valuation, the stock looks like a buy at today’s prices. If shares drifted lower, that would only heighten the buying opportunity.

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