



## Will Altria Buy Out Cronos (TSX:CRON) Stock?

### Description

**Altria Group** ([NYSE:MO](#)) is a giant company. Now valued at \$70 billion, the tobacco behemoth has advantages that smaller competitors simply don't possess. In today's environment, Altria's access to capital is most prized of all.

There's a chance the company could use its power to completely acquire its cannabis partner, **Cronos Group Inc** ([TSX:CRON](#))([NASDAQ:CRON](#)).

In December of 2018, Altria and Cronos [agreed](#) to a landmark deal. Altria purchased \$1.8 billion in the pot company's stock, giving it a 45% interest. Altria retained warrants that would increase its ownership to 55% at a price of \$19 per share.

"The proceeds from Altria's investment will enable us to more quickly expand our global infrastructure and distribution footprint, while also increasing investments in R&D and brands that resonate with our consumer," Cronos CEO Mike Gorenstein said.

"We are very excited about the future prospects of the cannabis industry and the opportunity for Cronos to position itself for long-term leadership," concluded Altria CFO Billy Gifford.

The partnership deal originally closed at nearly \$20 per share. Today, CRON stock trades at a 70% discount. With a [bargain](#) valuation, it's growing likely that Altria will completely acquire the cannabis producer.

### Connect the dots

Altria was formerly the U.S. subsidiary of **Philip Morris International Inc.** It's now an independent company focused completely on the American market. While this focus allows it to invest more strategically, it also leaves the company more vulnerable to domestic shifts.

In 1965, more than 40% of U.S. residents regularly smoked cigarettes. That figure has fallen nearly every year since. Today, smokers represent less than 15% of the adult population.

The decline in smoking has created new markets, particularly for vaping and marijuana consumption. Shifts in behaviour were the impetus behind Altria's multi-billion dollar investments in vape manufacturer Juul and cannabis producer Cronos.

In hindsight, it's clear that Altria overpaid for its Cronos stake. The firm has quickly lost more than half of its original investment. But the company wasn't in it for the short term. Altria built its success last century on age-old products, but the next several decades will rely on newer offerings like vapes and cannabis. This is the definition of a long-term bet.

## Time to buy Cronos stock?

At today's prices, it's difficult to see why Altria wouldn't pull the trigger and acquire the remainder of Cronos stock. The company already controls more than half the board seats, and the valuation is getting ridiculous.

Last quarter, Cronos had US\$1.3 billion in cash and \$0 in long-term debt. Its market cap is just US\$1.9 billion. Backing out the cash, Altria can acquire the company for only \$600 million, plus any premium versus the trailing share price.

After paying \$1.8 billion for roughly half the business, why wouldn't Altria acquire the rest at one-third the price?

A \$600 million investment would mean very little compared to Altria's \$70 billion market cap. Plus, Altria has more than US\$5 billion in cash on the balance sheet.

The dots here are easy to connect. Altria can acquire the rest of Cronos while barely impacting its financial situation.

The company already showed its hand by making a \$1.8 billion investment in 2018. Expect the company to take full control in the near-term.

### CATEGORY

1. Cannabis Stocks
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1. Cannabis

### TICKERS GLOBAL

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

3. TSX:CRON (Cronos Group)

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