



Cannabis Investors: Should You Buy Cronos (TSX:CRON) Stock Right Now?

Description

Shares of marijuana giant **Cronos Group** ([TSX:CRON](#))([NASDAQ:CRON](#)) are trading at \$7.56, which is 38% below its 52-week high and 75% below its record high. Despite the recent weakness, Cronos stock has returned 822% since its IPO back in December 2014. This means Cronos stock rose a staggering 3,600% between December 2014 and March 2019.

But we know past returns don't matter much to current and future investors. What they need to know is if the stock is positioned to outperform peers and the broader markets in the upcoming decade.

Cronos stock is trading at a premium

In the June quarter, Cronos Group reported sales of \$9.9 million, up 29% year-over-year. This is significantly lower than net sales of peers **Canopy Growth** and **Aphria** that reported revenue figures of \$152 million and \$110 million respectively, in their most recent quarters.

This also shows Cronos is trading at a hefty premium compared to industry peers. Cronos has a market cap of \$2.65 billion indicating a forward price to sales multiple of 64. Comparatively, Aphria, and Canopy are trading at a forward price to sales multiple of 3.2 and 23 respectively.

One of the primary reasons for the stock's sky-high valuation is the investment of **Altria**. The tobacco behemoth has a 45% stake in Cronos and pumped in \$2.4 billion into the firm last March. This investment provides Cronos with access to liquidity as well as Altria's expertise that can be leveraged to enter the high-growth vaping segment.

Last year, Cronos CEO Mike Gorenstein said, "We know the vaporizer space is one of the fastest-growing and evolving categories, with many consumers migrating to this convenient, noncombustible consumption method. At the same time, the category remains in its infancy with few products that are specifically tailored for cannabinoids."

However, there are multiple players who have entered the marijuana vaping segment, including Canopy and Aphria. Further, the health concerns related to vaping might put a dampener on sales —

at least in the near-term — as Canadian provinces of Quebec and Newfoundland and Labrador [have banned vape sales](#).

What next for investors?

Cronos ended the June quarter with a cash balance of \$1.3 billion, indicating that it has enough liquidity to tide over the macro-economic volatility. Alternatively, its operating cash flow stands at a negative \$150 million in the last 12 months and its earnings loss might not inspire much confidence.

Cronos reported an operating loss of \$21.3 million in 2018, and this figure ballooned to \$121.5 million in 2019. In [the first six months of 2020](#), its operating loss inched closer to \$80 million, compared to sales of just \$18.3 million in this period.

We can see that the road ahead for Cronos Group investors is rocky given structural issues surrounding the company. While Cronos is investing in derivatives products, there are research reports suggesting that edible product sales were flat while the demand for cannabis flower experienced an uptick in the second quarter.

Does this mean that consumers prefer lower-priced cannabis flowers compared to derivatives and edibles? If so, it brings bad news for Cronos investors, as it has a comparatively lower presence in flower production.

Cronos' massive losses and high valuation metrics suggest investors would be wise to stay away from a stock that is struggling on multiple fronts.

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