



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

Description

In the last few months, several cannabis stocks have made a strong comeback primarily due to the Joe Biden presidential win. Pot stocks were down in the dumps shortly after Canada legalized marijuana for recreational use. While investors were optimistic about cannabis sales in the country, the nascent industry was hit by a slew of structural issues that included a thriving black market, a slower-than-expected rollout of retail stores in major Canadian provinces, negative profit margins, billion-dollar writedowns, rising competition, and high inventory levels.

However, as the Democrats are now in power, there are expectations that Joe Biden will legalize marijuana at the federal level. This will help Canadian pot producers gain access to the largest cannabis market south of the border.

Due to these developments, shares of **Cronos Group** ([TSX:CRON](#))([NASDAQ:CRON](#)) are up 84% in the last six months. Is the stock a good bet for long-term investors?

Cronos stock slumps post Q4 results

Cronos Group [recently disclosed](#) its Q4 results and reported sales of \$17 million, which were above Q3 sales of \$11.4 million and 133% higher than sales in Q4 of 2019. Cronos also managed to beat analyst revenue estimates of \$13.8 million.

While Cronos easily beat top-line estimates, investors were not impressed with the company's losses. Cronos reported a net loss of \$112 million, or \$0.31 per share, compared to the prior-year profit of \$61.6 million. Cronos was profitable in Q3 as well with a net income of \$68.5 million.

Analysts expected the company to post a net loss of \$0.06 per share in the December quarter. We can now see why CRON stock is down 34% from its multi-year high.

Cronos claimed its top line grew due to an uptick in recreational cannabis sales in the country. Though the pot heavyweight has [a small presence](#) in the U.S., its CBD (cannabidiol) brand Lord Jones helped to increase sales by 30% here.

Cronos also stated that the Canadian black market has forced the company to reduce product prices due to related pressures. It also had to write down \$15 million on its cannabis flower extracts in Q4. Further, its investments in research and development increased costs by 31%.

What's next for investors?

Cronos Group can afford to have a few more quarters of negative profitability given its cash balance of \$1.51 billion. It is backed by tobacco giant **Altria**, which owns a hefty 45% of Cronos. The pot leader is now aiming to introduce lab-grown cannabis products in 2021, which might revolutionize the industry.

These lab-grown products will help Cronos reduce product prices by a huge margin, allowing it to compete with the black market.

However, investors will also be wary of the high valuation of Cronos stock. It is valued at a market cap of \$4.71 billion. This indicates a forward price-to-sales multiple of 56, which is really steep. Analysts expect the company to grow sales by 80% to \$84.15 million in 2021 and by 61% to \$136 million in 2022.

They also have a 12-month average target price of \$8.45 for Cronos stock, which is 35% below its current trading price.

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