



Is Cronos (TSX:CRON) Headed Further Down in Price?

Description

Things could be about to get even worse for **Cronos Group Inc** ([TSX:CRON](#))([NASDAQ:CRON](#)).

Since March, the stock has been plummeting, losing around half of its value during that time. The stock has been heavily overpriced for some time now — with plenty of room to continue falling, especially now that one analyst has adjusted their target for the stock.

Last week, an analyst from Cowen & Co. downgraded her 12-month price target for Cronos from \$21 to just \$17, about 19% less. However, one analyst still has a price target set [as high as \\$27](#) for the stock.

Considering how badly pot stocks have been struggling lately and with investors down on the industry, however, \$27 might be overly optimistic, especially as Cronos is still at a valuation of \$5 billion.

Multiple brokerages have price targets of \$17 or less for Cronos, and it was only a month ago that it was above that price. The challenge when setting these price targets is that so much can happen in a year, especially in the volatile cannabis industry. Even if Cronos is able to continue growing its sales, it may not be enough given the high multiples that it trades at today.

Profits have become more of a focus for cannabis investors

As of late, investors have shown to be more concerned about profits rather than just sales growth. Many cannabis companies have been going through lots of cash, which is an issue for shareholders who worry about dilution or the company having to take on debt in order to keep growing.

The very growth that once made pot stocks attractive is now leading to problems. The race for industry around expansion has seen companies spread themselves thin.

Take rival **Aurora Cannabis** for example, which prides itself on having sales and operations in over 20 countries. With a net loss of over \$158 million in its [most recent quarter](#) and \$55 million in cash used from its operating activities, it's financials have left a lot to desired.

In order for Cronos to be able to make it back to over \$20 a share, a lot has to go right for the stock, and that just hasn't been the case lately. While its net income has gotten a boost from non-operational items, at the operational level, Cronos is just not achieving strong enough results to be a good buy.

Bottom line

Cronos is still a very expensive stock today, and a \$17 price target may be as good as the company deserves. I'd argue that it should be even lower than that given that competition is growing more intense and things aren't going to get any easier for Cronos from here on out.

Buying it would be a very risky proposition. While pot stocks may rebound from this latest series of sell-offs, Cronos is not one I'd expect to outperform its peers.

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