



## Can Cronos Group (TSX:CRON) Stock Double Your Money?

### Description

Shares of **Cronos Group** ([TSX:CRON](#))([NASDAQ:CRON](#)) have lost significant value in the last year. The stock has lost 48% since July and is currently trading at \$10.95, which is 70% below its 52-week high.

The company's performance is in line with several marijuana industry peers. It has been just over a year since marijuana was legalized for recreational use in Canada. But the enthusiasm that drove stock prices to record highs has dwindled.

The [cannabis sector has been grappling with](#) competition from the illegal market, regulatory issues, rising inventory levels, and more.

So, does Cronos stock has the potential to increase investor wealth substantially? Let's have a look at its key drivers, growth metrics, and valuation.

### Cronos stock is trading at a high valuation

Cronos is valued at \$3.7 billion in terms of market capitalization. This is really expensive as the stock is trading at 85 times 2019 sales and 25 times 2020 sales. Comparatively, peer billion-dollar stocks such as **Aurora Cannabis** and **Canopy Growth** are trading at 8 times and 15 times forward sales.

So why is there a huge discrepancy in stock valuation? Cronos is estimated to grow sales by 267.2% in 2019 and 235.8% in 2020. Comparatively, analysts expect Canopy Growth to grow sales by 159% in the current fiscal year and 87.8% in the next year. These figures stand at 121% and 64% respectively for Aurora.

Does the high expected revenue growth for Cronos justify its expensive valuation? Well, Cronos is not only expected to grow sales higher over the next few years, but it is also expanding profit margins rapidly.

Analysts expect Cronos to post adjusted earnings of \$0.99 in 2019. Most pot stocks, including Aurora

and Canopy, are struggling with negative margins. It might, in fact, take several years for cannabis companies to be sustainably profitable.

Cronos is estimated to grow EBITDA from -\$18.8 million in 2018 to \$82 million in 2021.

## What will drive sales growth for Cronos?

While Cronos is set to experience robust revenue growth, what will drive sales higher? Similar to other cannabis companies, Cronos is banking on production expansion, partnerships, and entering new market segments to drive the top line.

In the June quarter, Cronos acquired a GMP-compliant fermentation and manufacturing facility in Winnipeg. It entered the U.S. markets via a leading hemp-developed platform. The company also hired a chief innovation officer with extensive experience in the consumer goods segment.

Cronos is also getting ready for cannabis 2.0 by expanding its supply chain and securing third-party concentrates as well as co-manufacturing capabilities for its derivatives launch. Canada legalized cannabis-infused edibles, vapes, and concentrates on October 17, 2019, and these products will be available for retail purchase by the end of December this year.

To expand its international footprint, Cronos aims to establish an efficient global supply chain and diversify its sales and distribution network. Its business strategies include creating a disruptive intellectual property and grow its product portfolio, which might lead to a loyal base of customers.

Cronos has created substantial investor wealth already. For example, investing \$10,000 in Cronos stock back in 2016 would have been worth \$462,000 now. But its high valuation will result in volatility, especially if the company misses earnings or revenue estimates.

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