Better Cannabis Buy: Cronos (TSX:CRON) vs. Tilray (NASDAQ:TLRY)

Description

Cannabis investors continue to experience a steep decline in the value of their investments. However, several cannabis stocks are trading close to their 52-week lows and might gain in market value as we head into 2020.

Here, we look at two stocks that have corrected significantly in the last year. The stocks are **Cronos** (TSX:CRON)(NASDAQ:CRON) and **Tilray** (NASDAQ:TLRY). Cronos went public back in December 2014 and has returned 1,200% since then. However, it is currently trading at $10.8, which is 67% below its 52-week low. This means the stock was up 4,000% between December 2014 and March 2019.

Tilray stock went public in July 2018. It rose 400% in fewer than three months before wiping out these gains and plummeting to record lows. Tilray stock is currently trading at US$21.62.

Let’s take a look at the earnings growth, profit margins, the bottom line, and more for Cronos and Tilray.

Revenue growth and profit margin

In the last month, several analysts have revised their sales forecasts lower, driven by the less-than-impressive quarterly results of cannabis companies.

Analysts now expect Cronos to grow sales by 258.2% to $41.82 million in 2019 and 235.6% to $140.35 million in 2020.

Comparatively, they estimate Tilray to grow sales by 310% to US$176.92 million in 2019 and 88.7% to US$333.9 million in 2020.

Profit margin

Several cannabis stocks are still posting an adjusted loss and are struggling with profit margins.

However, with revenue growth, investors can expect the profit margins to expand at a significant pace going forward.

Analysts expect Cronos to be EBITDA positive by 2021. They estimate its EBITDA to improve from -$18.8 million in 2018 to -$60.3 million in 2019, -$25.5 million in 2020, and $73.3 million in 2021.

Tilray too is expected to be EBITDA positive by 2021. Analysts expect the company's EBITDA to fall from -US$33.1 million in 2018 to -US$63.3 million in 2019. EBITDA is then expected to improve to -US$29.5 million in 2020 and US$40.7 million in 2021.

In 2021, Cronos's EBITDA margin is estimated at 18.4%, while the same for Tilray is estimated at 7.8%.

Valuation

Cronos is valued at $3.64 billion (in terms of market cap), or 87 times 2019 sales and 26 times 2020 sales. The company is debt-free and has a price-to-book ratio of 2.97.

Tilray is valued at US$2.11 billion (in terms of market cap), or 12 times 2019 sales and 6.3 times 2020 sales. Tilray is also debt-free and has a price-to-book ratio of 5.84.

Similar to other cannabis companies, Cronos and Tilray continue to invest heavily in manufacturing facilities that will drive growth and expansion. Analysts expect Cronos to spend $64.1 million in capital expenditure (capex) for 2019. Its capex/sales in 2019 stand at 126%, and this ratio will fall to 15.4% in 2020.

Tilray's capex/sales in 2019 is 33.6%, and it will fall to 17.4% in 2020.

Analyst target estimates

We have seen that Tilray and Cronos have lost significant market value in the cannabis sell-off over the past year. Are they going to trade lower or move higher over the next 12 months? Let's see how analysts expect these stocks to perform.

Analysts expect Cronos stock to rise 10.4% in the next 12 months to $11.94 per share. They have an average price target estimate of US$38.4 for Tilray, which is 77.6% above the current price.

While Cronos is trading at a higher valuation, analysts are more bullish about Tilray stock.

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araghunath