

CRONOS AUSTRALIA LIMITED (ASX: CAU)

Equity Analysis (26 July 2022)



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Introduction

Cronos Australia Limited:

Headquartered in Victoria, Australia, Cronos Australia Limited (ASX: CAU) is a pharmaceutical company that provides medicinal cannabis products. The company is engaged in developing a range of cannabinoid-based and related brands and selling the resulting products in Australia and other countries.

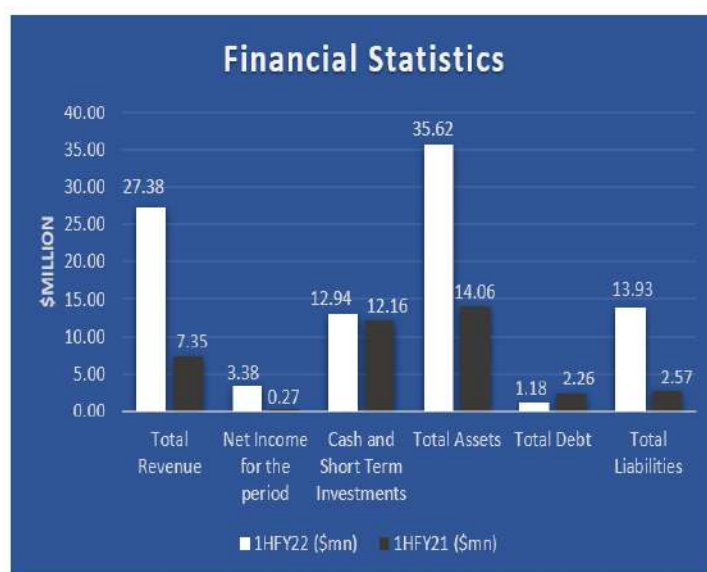
Recommendation	Speculative Buy	
Risk Profile	High	
Current Market Price (\$)	0.280	
52 Week Low-High (\$)	0.105-0.398	
Market Capitalization (\$Mn)	151.89	
Outstanding Shares (Bn)	128.75	
PE (TTM)	-	
EPS (\$) (TTM)	-0.007	
Dividend Yield/Frinking	-	
Ex-Date/Pay-Date	-	
Enterprise Value (EV)/Sales (LTM)/(FY-1)	4.98	-29.63
EV/EBITDA (LTM)/(FY-1)	42.66	-
Price/Book Value (LTM)/(FY-1)	7.11	0.65

Shareholder Pattern (Mn)

Top 3	Current	30/06/22	31/03/22
Jansen (Benjamin David Ngahuia)	129.89	129.89	129.89
Headley (Guy Rothwell)	128.95	128.95	128.95
Jansen (Matua Hasyo Charlie)	55.19	55.19	55.19

Operating Performance

In 1HFY22 (period ended 31 December 2021), total revenue stood at \$27.38 million compared to \$7.35 million in 1HFY21. Net income for the period stood at \$3.38 million against \$0.27 million in 1HFY21. At the end of 1HFY22, the company had cash and short-term investments of \$12.94 million against \$12.16 million at the end of 1HFY21. Total debt at the end of the 1HFY22 stood at \$1.18 million compared to \$2.26 million at the end of the 1HFY21.



Source: Refinitiv, Chart Prepared by Kapitales Research

Ratio Analysis	Industry Median	2022		2021		2020
		Dec-21	Jun-21	Dec-20	Jun-20	Dec-19
Gross Margin	65.1%	39.3%	46.3%	43.3%	94.3%	-
EBITDA Margin	21.7%	19.5%	(151.0%)	10.4%	(1879.5%)	-
Operating Margin	-	17.9%	(158.7%)	8.3%	(1880.0%)	-
Pretax Margin	30.6%	17.9%	(158.7%)	8.3%	(1721.8%)	-
Net Margin	25.7%	12.3%	(158.7%)	3.7%	(1721.8%)	-
Asset Turnover	0.24	1.23	0.12	0.49	0.01	-
ROE	7.3%	26.4%	(26.4%)	2.2%	(14.4%)	-
Quick Ratio	1.55	1.32	1.03	26.47	23.99	51.17
Current Ratio	2.08	1.72	1.75	27.76	24.30	51.19
Cash Cycle (Days)	133.20	-7.40	169.60	3.70	-5,624.00	-
Assets/Equity	1.58	1.64	2.22	1.22	1.21	1.13
Debt/Equity	0.15	0.05	0.18	0.20	0.16	0.11
ROIC	-	24.7%	(23.0%)	1.9%	(13.0%)	-

Source: Refinitiv, Analysis by Kapitales Research

Q4FY2022 Updates

On 25 July 2022, the company released its quarterly activities report period ended on 30 June 2022. Sales generated through the CanView platform in the June quarter exceeded AU\$20.8 million, and total sales generated through the CanView platform in FY2022 exceeded the corresponding figure for FY2021 by AU\$43.3 million, or more than 200%. CAU records annual cash receipts from customers for FY2022 of AU\$70 million, representing 245% year-on-year growth. Almost half of all pharmacies in Australia now have accounts on the CanView platform.

Outlook

Cronos Australia Limited has delivered strong financial results in FY22, positioning the company for sustainable, scalable growth into FY23 and beyond. The medicinal cannabis market continues to grow rapidly in Australia as cannabinoid therapies become mainstream for patients, doctors, and pharmacists. The company is focused on the high-value, downstream end of the value chain for sustainable long-term growth and profitability.

Sales continue to grow as more prescribers and suppliers are onboarded, driving volumes through the platform. This growth is driven by both the increase in the medicinal cannabis market's size and more volume being directed through CanView by prescribers and pharmacies.

Risks

The Company has exposure to the following risks-

- Operational risks (including competition risk, product failure risk, and risks associated with IP licence)
- Government policies, regulations and legislative changes risk
- Health, safety, and well-being risk
- Financial risks (including credit risk, liquidity risk, foreign exchange risk, and interest rate risk)

Technical Analysis



Source: Refinitiv, Analysis by Kapitaes Research

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Company Name	Ticker	Sector	CMP (\$)	Advisory date	Rating	Target 1 (\$)	Target 2 (\$)	Stop Loss (\$)
Cronos Australia Limited	CAU	Health Care	0.280	26 July 2022	Speculative Buy	0.350	0.440	0.215

The stock of pharmaceuticals, biotechnology & life sciences company CAU settled at AU\$0.280 on 26 July 2022, after a surge of nearly 1.8% from the previous day's closing. It is currently trading between its 52-week price levels. The stock price is trading above the significant exponential moving averages of 20, 50, and 200 days on a daily time frame, indicating short-term bullishness.

The stock is trading near the pivot resistance R2 (AU\$0.293) and holding a bullish momentum on a daily time frame chart.

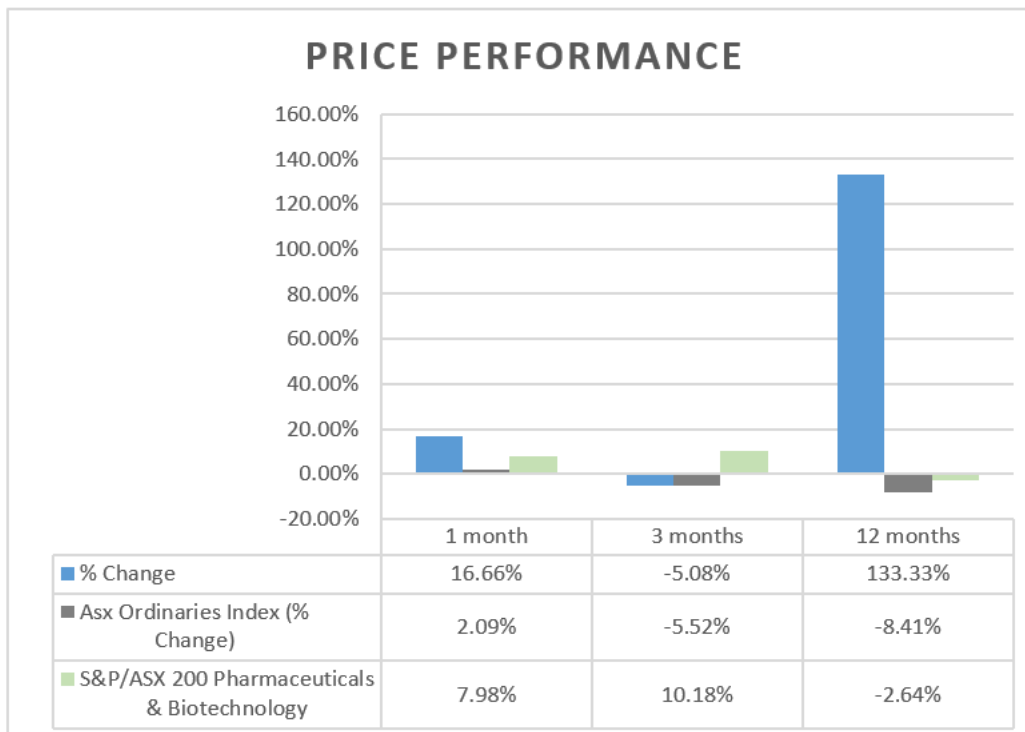
RSI (14-days) is at 65, holding a bullish momentum above the breakout zone in the index.

Based on these facts, buying can be initiated at the current market price (CMP) level for the potential targets of AU\$0.280 (previous swing resistance) and AU\$0.440 (pivot resistance R4) in the coming days. Investors can book either full or partial profits at target one and wait for the stock to achieve target two (depending on their risk appetite).

Investors are advised to keep a strict stop loss at or below AU\$0.215 (previous swing resistance) to protect their investments, in case of an unfavorable movement in the stock due to any uncertain event.

Please Note: It would be in the best interest of investors to trail their stop-loss upward if the stock is moving in our favorable direction.

Price Performance



Source: Refinitiv, Chart Prepared by Kapitales Research

Investment Summary

The company's operating performance in 1HFY22 was better than the previous corresponding period, underpinned by improvement in the topline and bottom-line performance. CAU's cash & short-term investments and total assets increased and total debt reduced in 1HFY22 compared to 1HFY21. Looking at the shareholder pattern, the company's top three shareholders have maintained their stake in the company for the last two quarters. It shows the shareholder's confidence in the stock. The company's stock has outperformed the ASX ordinary index and sector index in one month and one-year timeframe.

Considering all the above factors and the current trading level, we recommend a "Speculative Buy" rating on the stock at the current market price of AU\$0.280 as of 26 July 2022 (after-market hours).

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Mission to Empower Investors

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Disclosure: The information mentioned above has been sourced from the company reports and a third party database, i.e. Refinitiv. Investors are advised to use strict stop-loss to protect their investments in case of any unfavorable/uncertain market events.

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