



## Is CannTrust Holdings Inc (TSX:TRST) Winning the Cannabis Wars?

### Description

Two weeks out from legalization, the cannabis industry is in a strange place. Between falling stock prices, supply shortages and acquisition fury, people are having a hard time deciding what to make of the industry in 2018. Add spiraling costs and negative earnings into the mix and you've a recipe for a sector that's hard to call.

Nevertheless, there are some companies emerging as winners in the burgeoning legal cannabis industry. One of the best, but hardly the most talked about, is **CannTrust Holdings Inc** (TSX:TRST). CannTrust is one of the most profitable, fastest-growing and cheapest cannabis stocks you can buy. Although like its competitors, it is down this month, but it's showing some encouraging long-term signs, starting with profitability.

### Consistently profitable

CannTrust is one of the few cannabis stocks that's [consistently profitable](#) in net income terms. It's also the *only* cannabis stock I'm aware of that's profitable in operating income terms, earning about \$2.6 million in Q2 2018. Although **Aphria Inc** and **Aurora Cannabis Inc** have posted positive earnings before, the earnings came from unrealized gains on securities. Only CannTrust has managed to post positive income from its actual operating activities.

It should be noted, however, that this could change quickly when earnings statements come out this fall. Legalization resulted in massive sales nationwide, and we may yet see some of CannTrust's competitors posting operating profits before the year is out.

### Red-hot revenue growth

At about 99% year over year, CannTrust's revenue growth is blazing hot. This is better than what we've seen at industry leading companies like **Canopy Growth Corp**. It's also less than what Aurora posted in its most recent quarter, a blistering [223% year-over-year](#) growth rate. However, unlike Aurora, CannTrust achieved its 99% growth rate without ballooning costs, which also explains its stellar 61.49% profit margin.

## A modest valuation

Based on last quarter's earnings, CannTrust is modestly valued. The P/E ratio of 49 may not look cheap on the surface, but recall that its revenue is growing at 99% year-over-year. If CannTrust can keep up its earnings growth in the high double digits, then a 49 P/E ratio is far from unreasonable. And at any rate, it's certainly the lowest P/E ratio you'll find in the cannabis space.

## Bottom line

While CannTrust is not the best-known cannabis company in the world, its stock may be one of the better ones out there. With strong earnings, red-hot revenue growth and a not-too-spicy valuation, it has many qualities that appeal to both growth and value investors alike.

One thing worth noting about CannTrust's earnings is that they only became positive last year. Since then, the company's quarterly earnings reports have shown periods of both growth and decline. Given that the company's earnings aren't yet stable, it might yet be too early to declare CannTrust the best cannabis stock on the basis of earnings.

However, when considered alongside the stock's valuation and growth, CannTrust's earnings do make it look attractive compared to its competitors.

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