



The Bull Case for Holding CannTrust (TSX:TRST) Stock

Description

One of the smaller cannabis producers out there, **CannTrust Holdings Inc.** (TSX:TRST) is an interesting company to look at for a number of reasons.

First, this is one of the few cannabis producers in which I can see a real bull case for owning shares (and most readers will know I am very bearish on this sector overall at this point in time). Presenting the bull case on CannTrust will highlight many of the company's strengths, but will certainly not provide readers with a false indication that I am in any way condoning investment in what I still believe is a highly speculative space.

The good

CannTrust is a company that's been quietly performing on the sidelines of the main act, thus avoiding much of the hype other peers have received, but providing generally better results, at least early on. CannTrust has agreements for [30,000 kilograms of recreational product per year](#), a substantial amount compared to its market capitalization and the corresponding valuation multiples its peers are trading at.

A few of the key positives I like about CannTrust's business model are its focus on increasing revenue from oils (which increased 60% year over year) and improving performance in its medical division (headcount of medical patients increased by nearly 40% year over year).

The great

As fellow Fool contributor Andrew Button has pointed out, CannTrust is indeed one of the few companies that's demonstrated a track record of [operating profitability](#). Given the IFRS accounting rules imposed on the cannabis sector (which views cannabis producers more as farms/agricultural producers than widget manufacturers), this is extremely significant.

The ability of CannTrust to appeal to the fundamental investor is one that may gain credence in the quarters to come, when investors begin demanding operating margin and become generally dismayed with the massive negative numbers posted by the industry at large.

The risk

As with any cannabis investment, investors are betting on CannTrust to be able to grow market share in what will be a competitive market and become a market leader, and/or be acquired by a firm looking to improve operating margin as investor scrutiny picks up.

Either of these scenarios involves enough obvious risk that I don't think I need to comment further here.

Bottom line

For investors looking for a cannabis producer that appears to have what could be loosely defined as a "sustainable" business model on hand, CannTrust is an interesting option. With respect to the company's ability to grow revenues and earnings at a quick enough pace in the quarters and years to come for shareholders, questions remain.

However, it appears that CannTrust may actually be much better positioned in its current environment to see share price advances, rather than declines, in the medium term due to its fundamentals.

That's still too much risk to advocate for any cannabis producer currently, but CannTrust does provide a compelling case for those risk-seekers who just can't help it.

Stay Foolish, my friends.

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