Is CannTrust Holdings Inc (TSX:TRST) a Buy After Dropping 20% Last Week?

Description

CannTrust Holdings (TSX:TRST)(NYSE:CTST) released its earnings last week and investors were not impressed, as the stock went over a cliff shortly afterwards. Despite its sales rising more than 132% during the quarter, the company's bottom left a lot more to be desired, as CannTrust still ended up recording a very heavy loss totalling more than $25.5 million.

Ultimately, this is really par for the course in an industry where rising sales have often been met with mounting losses. And so for the stock to drop so drastically on these results might be a bit surprising. The company still has significant growth prospects, as it is working towards adding capacity and even looking at growing outdoors to help increase its output even further.

In an industry where supply is limited, capacity is the name of the game, and CannTrust is positioning itself to capture a lot of the market with more space for production. As impressive as its sales growth has been this past quarter, it's only scratching the surface of what its potential could be in just a few years' time when it will be able to produce even more cannabis.

CannTrust a cheap buy compared to key rivals

The recent drop in price could be a welcome opportunity for investors to buy up the stock at a more modest price. I wouldn't be surprised to see a bit of a recovery this week, as investors take a second look at the stock and consider the potential upside it has. Trading at a price-to-sales ratio of less than 25, CannTrust might actually seem like a bit of a bargain compared to its peers in the industry.

To put its value into perspective, consider that **Canopy Growth** trades at around 130 times its sales. Rival **Aurora Cannabis**, meanwhile, also trades at a multiple of over 100. Since profits are hard to come by in the industry and are often inflated by non-operating results, using a multiple of sales seems to be the best way to compare valuations today.

However, the argument could be made that both Canopy Growth and Aurora are much more established and more notable brands in the industry with even greater growth prospects, hence the bigger multiples. The problem is that at multiples of more than 100 times sales, that's a significant premium for any investor to pay, regardless of how bullish they may be on a company or industry. I'd argue that CannTrust is still a very expensive stock at its multiple, but relative to its peers, that doesn't appear to be the case, and that's why I'd expect to see some sort of a rally this week.

Bottom line

CannTrust is not one of the big players in the cannabis industry today, but that could change with what it has planned for the future. For that reason, I'd keep a close eye on the stock, as the potential is certainly there for it to grow into a much bigger brand. There's definitely some risk in investing in CannTrust as it has been very volatile over the past year, but that being said, it's still been able to generate returns of over 30% during that time.

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