



Health Canada Just Revoked the Licence of a Cannabis Operator: Is CannTrust (TSX:TRST) Next?

Description

This week, we learned that Agrima Botanicals had its cannabis licence revoked, becoming the first company to lose its licence. Agrima first had its licence suspended last fall after regulators found that “unauthorized activities” had taken place. It’s a little unnerving for **CannTrust Holdings** (TSX:TRST)(NYSE:CTST) investors that might be wondering if their company might be facing a [similar fate](#) after recently learning that it had been growing cannabis in rooms it wasn’t authorized to grow in yet.

We’re still early on in the process, and we likely won’t know until later this month what Health Canada decides to do with the company. However, the problem is that the precedent may have already been set with Agrima, and that would be very bad news for CannTrust.

Both companies engaged in unauthorized activities and promised to review the issues

CannTrust and Agrima were both involved actions that were disallowed by regulators, and both companies also formed groups that promised to look into the issues that were raised by Health Canada. Unfortunately, it didn’t end up with a favourable solution for Agrima and it could be a sign that CannTrust’s efforts might not be sufficient to prevent the company from following a similar fate.

While we don’t know the details of the infractions and how similar they are, it’s clear that both were, at a minimum, unauthorized. And if the rumours of CannTrust building fake walls are true, then it becomes more difficult for the company to be able to try and claim ignorance on the matter. While any revocation may take several months to take place, if CannTrust’s licence becomes suspended, then it could be the beginning of the end for the company.

It's going to be a big test for Health Canada, as there's [a lot on the line](#) here, potentially stripping a major producer of its licence and taking a significant amount of supply out from an industry that's been short of meeting demand since legalization took place back in October.

The results could be dire

Without a licence, there is no value in CannTrust beyond its net assets. By not being able to sell cannabis, there's no reason for investors to buy shares of the company. The stock has already been in a free fall, and losing its licence would be catastrophic. For Agrima's parent company, Ascent Industries, the company ended up having to file for creditor protection, as it faced liquidity issues as a result of the suspension of the licence.

CannTrust could run into similar problems, and that means the stock could run further into the ground. However, if the circumstances are different enough, there might be hope of CannTrust being able to escape with just a fine. There's a lot at stake for the industry, and it's going to be an important decision for Health Canada. Taking the licence away from a small producer is one thing, but taking it away from a big company like CannTrust could have a devastating impact throughout the industry.

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djagielski

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