



## Will an Acquisition Save CannTrust (TSX:TRST)?

### Description

**CannTrust Holdings** (TSX:TRST)(NYSE:CTST) has come under fire in the past couple of weeks amid a [scandal](#) that could threaten the company's ability to continue operating as a cannabis producer. With the company found to be in violation of Health Canada's regulations, it faces the possibility of losing its licence, which could destroy any value the stock has left today. It has already lost more than 40% in value since news of the infraction was revealed.

However, recently there have been rumours circulating that the company could possibly be acquired and that a "white knight" could save CannTrust from losing its licence.

### Here's why it could happen

CannTrust has lost a lot of value in a short period of time, and under normal circumstances, that would make the stock a lot more appealing for a potential takeover, since the acquiring company could get it at a significant discount. CannTrust is one of the larger producers in the country and could instantly add a lot of value for a buyer.

According to *BNN Bloomberg*, there has been an effort behind the scenes to try and find a buyer for CannTrust. And there's even been a company that's reached out to Health Canada to see if overtaking CannTrust's operations and helping ensure that they are compliant would be a possible solution for the regulator. It's clear that, at a minimum, the company could stand to benefit from new management and that a producer with a better track record with Health Canada could help CannTrust clean up its act.

At its current valuation, there's likely a lot of interest in the company. Even for CannTrust's assets alone, there could be interest from other producers, especially when supply is a bit of premium these days.

### Here's why it might not happen

The main reason that we may not see an acquisition happen is that there's too much uncertainty today.

Without knowing where Health Canada will go with this issue and if new management would be enough to avoid the company losing its licence, it's simply too much risk for a prospective buyer, even at CannTrust's current valuation.

In the past, we saw a producer [lose its licence](#), and the company did not appear to have the ability to sell or transfer it. If that's true in CannTrust's case, then that would certainly hurt the company's valuation. A lack of precedents makes the current situation that much riskier for a potential buyer, especially with Health Canada being fairly quiet on the issue.

## Bottom line

While there's likely interest in the purchase of CannTrust, I wouldn't expect a company to make an offer unless it received some assurances from Health Canada that CannTrust would be able to keep its licence. And that's not something I'd expect the regulator to promise, certainly not at this stage.

If CannTrust continues dropping in value, then it might become worth the risk to buy the company for its assets. However, until more of a sell-off takes place, I wouldn't expect that to happen. Currently, there's no guarantee that a purchase of CannTrust will be enough to save the company from losing its licence, and that's why I'd expect any prospective buyers will remain at the tire-kicking stage for now.

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