



After Plunging 83%, CannTrust Holdings (TSX:TRST) Is Now the Only Cannabis Stock With a Valuation That Makes Sense

Description

CannTrust Holdings (TSX:TRST)(NYSE:CTST) stock can't seem to catch a break with the stock plunging another 22% on news that its CEO (and other executives) had known and apparently didn't care about unlicensed cannabis production in cultivation rooms that were unapproved by Health Canada.

The scandal has everybody running for the hills, and while there will likely be harsh penalties dealt out over the coming weeks or months, I think cannabis investors should have known that such a [risk](#) existed given the evidence of plenty of cannabis firms that seemed willing to test the boundaries of legality.

The severity of potential punishments for illicit cannabis cultivation aren't 100% clear at this juncture, and to some unethical folks, that's enough of a green light not only to test the boundaries but to cross them entirely.

This too shall pass?

While most investors are undoubtedly hitting the panic button over the company's uncertain future, which may include licence suspensions, investors need to remember that such scandals in the cannabis industry have happened before, and they're probably going to happen again, until government regulators demonstrate they're not afraid to dole out extremely harsh penalties without the need for initial warnings.

It seemed like such a long time ago when **Canopy Growth** stock was in a world of pain over Mettrum's use of banned pesticides. **Aphria** was also under fire a while ago over short-seller allegations of intentionally overpaying for an acquisition that had conflict of interest written all over it. And let's not forget about the off-limits promo sponsorships that a few pot firms were found guilty of.

Will CannTrust's series of negative news be swept under the carpet like its peers before it?

It could, especially if it becomes more evident that management hadn't had sufficient time to correct upon its non-compliance. While the execs "knew" about it, it's also possible that they didn't understand the magnitude of wrongdoing. And if that's the case, penalties doled out could be less harsh than everybody on the Street's expecting.

In any case, given the magnitude of the recent decline, it seems as though cannabis investors think that it could be curtains for CannTrust as the risk of a revoked licence is a possibility.

I don't think such a worst-case scenario will happen, especially if some higher-ups at CannTrust are shown the door or even a jail cell.

Ryan Tomkins, an analyst at Jefferies, thinks a management shakeup is bound to happen as a result of the recent fiasco.

"We see strong likelihood of a fine by Health Canada for a breach of the Cannabis Act, over the 15 class actions now filed with many more investigating which could increase that number, and the possibility of jail time for those involved." said Tomkins, who also noted that it's becoming more "apparent" that management wasn't "aware of non-compliance" and simply "chose not to correct it."

In any case, CannTrust suddenly became one of the cheapest cannabis stocks out there at 2.5 times book and 6.4 times sales. I'm a big fan at \$2 and change, even with the baggage and the consequences that we'll soon learn more about.

A cannabis stock with a reasonable valuation?

You'd better believe it.

CannTrust just became my favourite play on the industry, but be warned: you could get hurt if you're betting money that you can't afford to lose. Although a licence suspension looks unlikely, it could still happen, and that'd imply further downside.

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Date

2025/07/08

Date Created

2019/07/26

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