



CannTrust Holdings (TSX:TRST): Buy the Dip or Jump Ship?

Description

CannTrust Holdings (TSX:TRST)(NYSE:CTST) has crashed by so much that it has a valuation that's not cringe-worthy. Even after a +80% fall over the illicit cannabis-growth fiasco, the stock isn't exactly what you'd consider cheap, but as far as cannabis stocks are concerned, it's the [closest thing](#) you'll find to a steal.

While CannTrust may be subject to penalties, I think the decline is excessive. If it were any industry other than cannabis, the fall probably would have been capped at a 40% drop. So, in essence, the recent nosediving in shares may prove to be a massive bargain in a year or two down the road, when everybody has forgotten about CannTrust's illicit cannabis cultivation in an unlicensed room.

While CannTrust is still a speculative bet, I think there are significant rewards for those willing to take the risk.

Jefferies pointed out that a major management shuffle may be on the horizon, which would likely improve the odds that CannTrust won't get its licence ripped up by Health Canada amid its sales suspension.

At the time of writing, the company is under a Health Canada investigation that's expected to "conclude within a few days" with "appropriate actions [taken] immediately after."

There's no question that CannTrust will be a major double-digit mover in the week ahead, and although things seem dire, it's noteworthy that most investors have been acting on speculation, not facts, as fellow Fool contributor [David Jagielski](#) pointed out in his piece on the CannTrust fiasco: "Many people have been jumping to conclusions and speculating on what may or may not happen, which has just made matters worse for the stock, as there's nothing like mass panic to send a stock into a tailspin."

An everything-or-nothing scenario

Depending on what Health Canada decides to do, CannTrust could either skyrocket into the stratosphere or move closer to zero.

If CannTrust has its licence suspended, there will be much more selling, and you'll probably lose your entire investment in the name. In any other scenario, CannTrust could be a quick triple, especially if there are only fines, firings, and corrective actions involved.

In any case, I think that management has learned their lesson the hard way. I suspect the company will face a soured upcoming quarter, but I don't think the company will be left for dead — a scenario many investors seem to be buying into. After its +80% plunge, I'd say the lousy quarter is baked in many times over.

Furthermore, Jagielski brought up a good point in that the government wants the industry to succeed, and a licence suspension, which could stunt investment across the broader industry, is not a reasonable course of action.

I think CannTrust is a solid buy on the dip but only for those with excess cash that they wouldn't mind losing entirely.

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