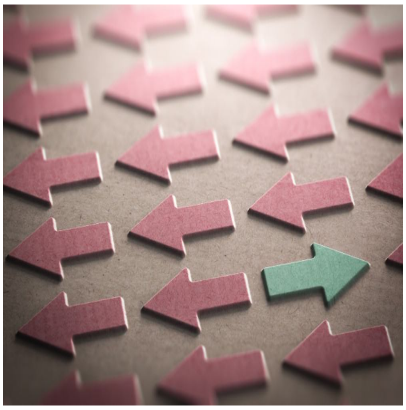

Is the CannTrust Holdings's (TSX:TRST) Scandal an Opportunity for Investors?

Description

There has been no shortage of drama within the marijuana sector. One of the most prominent concerned is **Aphria** — one of the leading Canadian cannabis companies. Aphria shed much of its share value after allegations that the firm had overpaid for various acquisitions it had made in South America came to light. While it took some time, Aphria now seems to have left these allegations behind, but the company had to pay a hefty price to do so.

Aphria's CEO was pushed out of the door, an investigation into the allegations was launched, and the company incurred a $50 million non-cash impairment charge as a result. Another major marijuana company is currently dealing with some major drama of its own: **CannTrust Holdings** (TSX:TRST)(NYSE:CTST).

Troubling revelations

In case you aren't caught up, CannTrust recently revealed it received a non-compliance report from Health Canada. This was as a result of the firm growing over 5,000 kilograms of cannabis in unlicensed rooms. Though weed is now legal in Canada, growers still have to abide by some stringent rules, and it seems CannTrust was in blatant violation of some of these rules. Further, top management was aware of these non-compliant activities and did absolutely nothing. Naturally, CannTrust needs to do something to gain the trust of investors back.

The company recently took a step towards that goal by firing CEO Peter Aceto and forcing President Eric Paul to resign. CannTrust also put a hold on over 7,000 kilograms of cannabis grown in these rooms and temporary halted medical and recreational cannabis sales. As one would expect, shares of CannTrust plunged as a result of this debacle. There will be more consequences down the road. CannTrust's financial results will almost certainly feel the full impact of this fiasco.

Is this an opportunity?

Just because CannTrust's shares are down doesn't necessarily mean now is a good time to purchase them. That depends on whether the company will safely rebound from this setback and what value it offers investors to begin with. The first of these questions is likely easily answered. Sure, CannTrust will have to wait some time before it can completely break free from this episode. Corporations have had to deal with much worse, after all. That aside, though, are there any good reasons to consider CannTrust? Here is why one might answer that question in the affirmative.

Other than CannTrust being one of about a dozen companies in Canada that is projected to break the 100,000-kilograms-per-year production-capacity mark, the Ontario-based pot grower also benefits from its strategically located greenhouses. CannTrust grows much of its cannabis in nutrient-rich water solvents (unlike most of its competitors who do it in soil) — a feat made possible because it benefits from easy access to water and electricity. This strategy will likely allow CannTrust to grow cannabis at lower costs than the average, which, all other things remaining equal, will lead to higher margins.

The bottom line

It will be critical to observe how the drama surrounding CannTrust evolves in the next few weeks. Whatever happens, though, investors should seriously consider purchasing shares of CannTrust now. As the old adage goes: buy low and sell high.

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