



Is Battered CannTrust (TSX:TRST) Stock a Buy or Sell?

Description

Are we seeing distress signals from **CannTrust** (TSX:TRST)(NYSE:CTST)? Call it grave misconduct or fraud, but the licensed cannabis operator had it coming. The scandal at CannTrust is also hurting the whole cannabis industry and is affecting investor confidence.

The stock has plummeted to \$2.87 last week when the price stood at a high of \$13.45 just four months ago. CannTrust is [sinking](#) and has lost about 60% in market value in less than a month. A temporary suspension of the licence could be the repercussion. But a complete revocation of the licence could spell doom for the company.

The discovery

No one expected CannTrust would intentionally skirt legal cannabis cultivation laws. The company's expelled CEO Peter Aceto and resigned chairman Eric Paul were in cahoots to hide the unlawful growing of cannabis in five unlicensed cultivation rooms.

CannTrust's former top executives knew about the shenanigans, as confirmed by the company's internal e-mails. The bosses could have stopped the illegal activities upon learning about them last November. Instead, the two consented and turned into black marketers.

The sinister plot was discovered when Health Canada conducted an inspection in June. CannTrust was cultivating and selling unlicensed cannabis since October 2018 before getting the cultivation licences in April this year. In July, management admitted to the violations.

Some cannabis products grown inside the unlicensed rooms at CannTrust's Niagara facility have already been shipped. It is possible that the products can be found in all 10 Canadian provinces where the company has supply deals.

Seizing the contraband

Health Canada took hold of 5,200 kilos from the five rooms while CannTrust placed on hold 7,500 kilos being kept at the Vaughan facility. The total inventory seized by the regulating agency is just 3% of CannTrust's potential peak annual capacity production of 400,000 kilos. Sale operations were also stopped.

Health Canada is still conducting quality tests and will release the results soon. CannTrust might partially or totally lose the 12,700 kilos. But what is unknown at this point is the magnitude of the penalties or fines. As mentioned earlier, a temporary or full licence revocation is a strong possibility.

CannTrust is definitely in dire straits, despite the statement of Robert Marcovitch, the newly appointed interim CEO. He expressed confidence that the company will return to full compliance with Health Canada after completion of the exhaustive investigation.

Buyers in waiting

With CannTrust in the freezer, management should carefully evaluate the options. Another Canadian cannabis producer that is not one of four growers with supply deals in all 10 Canadian provinces might attempt to make a pitch for CannTrust.

Acquiring CannTrust is good for a [prospective buyer](#) who wants to focus on the cannabis derivatives market. CannTrust's outdoor production can run up to 200,000 kilos, and outdoor cannabis is ideal for extraction.

The events at CannTrust leave a bad taste in the mouth. Many lost money when the stock sunk to an all-time low. Restoring investor trust and confidence is inconceivable. No one would dare recommend a buy rating for the stock.

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