This Cannabis Stock Gained Over 40% on Friday

Description

Shares of leading cannabis company **CannTrust** (TSX:TRST)(NYSE:CTST) rose 40.8% on Friday. The stock is currently trading at $4.21 per share as of writing. CannTrust has taken investors on a roller-coaster ride. Company shares first declined close to 80% from $13.45 in March 2019 to $2.99 on August 7, 2019. It fell over 50% in July 2019 and has returned -57% since its IPO in January 2018.

Last month, CannTrust was accused of selling unlicensed cannabis. It also allegedly evaded regulatory measures to sell marijuana products. According to reports, CannTrust received licences for its Niagara plant to cultivate and sell marijuana in April 2019. But the Niagara plant was in operation since October 2018. This investigation sent the stock spiraling downwards. Analysts and investors lost significant confidence.

Health Canada stepped in and suspended CannTrust licences. This suspension will result in massive losses for CannTrust. The company will be unable to sell its inventory of 5,000 kilos of harvested marijuana. Health Canada has seized this inventory. CannTrust also halted sales of its products in international and domestic markets.

The scandal resulted in top management layoffs. CannTrust CEO Peter Aceto was asked to leave, and Chairman Eric Paul was forced to step down. The Ontario Securities Commission (OSC) is also leading an investigation into this matter. OSC is pursuing this case as a quasi-criminal one, which suggests that perpetrators might suffer jail time if convicted.

What was behind CannTrust’s roaring comeback?

CannTrust shares made a staggering comeback in the late hours of trading on Friday. Leading auditor KPMG has reportedly withdrawn its CannTrust audit report for 2018 and the first quarter of 2019. KPMG claimed that the audited results are unreliable and inaccurate.

CannTrust's interim CEO, Robert Marcovitch stated, "We will continue cooperating with our auditor and regulators, and take whatever steps are necessary to restore full trust in the company's regulatory compliance. Our medical patients, customers, shareholders and employees deserve nothing less."

It is unclear why investors were buoyed with this recent development. Regulatory issues for public companies are a huge concern, and though KPMG will remain CannTrust's outside auditor, the latter will still be investigated by multiple regulatory authorities.

What next for CannTrust investors?

CannTrust has intentionally circumvented cannabis production regulations. This might result in an outright suspension for the company. Alternatively, CannTrust might also be fined and charged with penalties. CannTrust has appointed a financial advisor to look into a potential acquisition and other strategic alternatives.

The total inventory on hold for CannTrust is valued at $51 million, which is 50% more than its revenue of $34 million in 2018. The recent bounce-back of CannTrust stock is set to raise eyebrows, as the company is not out of the woods.

How will these investigations pan out? Will CannTrust escape with a fine and a rap on its fingers, or will regulatory authorities try to set an example with a strict verdict?

What will it mean for the cannabis industry as a whole? Will Health Canada and the OSC tighten the regulatory noose for other cannabis companies as well? Will the entry barrier for new players be high?

A lot of these questions will be answered in the coming months.

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