



Why CannTrust (TSX:TRST) Stock Declined Over 4% Yesterday

Description

It seems there is no respite for **CannTrust** (TSX:TRST)(NYSE:CTST) investors. CannTrust stock was down 4.1% yesterday after the company announced that products worth \$2.9 million were returned by the Ontario Cannabis Store (OCS). The OCS, which is in charge of Canada's wholesale to retail distribution, deemed the products to be "non-conforming."

This is the latest drawback for CannTrust and its investors. Last month, CannTrust shares fell over 50% after it was revealed that the [company was manufacturing cannabis](#) in unlicensed facilities. Government authorities such as Health Canada and the Ontario Securities Commission were forced to step in and are leading parallel investigations.

CannTrust's auditor KPMG also withdrew its company audit report for 2018 and the first quarter of 2019. KPMG claimed that the audits were inaccurate. Yesterday, The Schall Law Firm filed a class-action suit against CannTrust. The law firm accused CannTrust of false and misleading statements, due to which investors suffered substantial damages

CannTrust investors have lost a whopping 80% since March this year. So, has the stock bottomed out?

A lot depends on regulatory bodies

CannTrust stopped the sales of products across segments shortly after the manufacturing scandal went public. The total inventory on hold has been valued at \$51 million. It was [later revealed that Health Canada](#) has found another facility that did not comply with regulations.

Investors will be waiting with bated breath for the outcome of these investigations. In case Health Canada levies a fine that is not too hefty, expect CannTrust's stock to move significantly higher. The company can also then restart operations and focus on core strategies.

However, will the regulatory bodies suspend CannTrust's licences or revoke manufacturing permits? Will CannTrust, a company currently valued at \$400 million, cease to exist?

Cannabis companies are under the microscope

According to a *Forbes* article last week, the Federal Bureau of Investigation (FBI) is looking into corruption activities in the cannabis industry.

FBI Public Affairs Specialist Mollie Harpen stated, “States require licenses to grow and sell the drug — opening the possibility for public officials to become susceptible to bribes in exchange for those licences. The corruption is more prevalent in western states where the licensing is decentralized — meaning the level of corruption can span from the highest to the lowest level of public officials.”

Other leading cannabis companies such as **Curaleaf Holdings** and **HEXO** are also facing regulatory problems. Last month, Curaleaf received a warning from the Food and Drug Administration for misleading claims on products.

HEXO was accused of aggressively promoting products on social media platform **Snapchat**. While HEXO was accused by a short-seller, the Snapchat platform is popular among the underaged populace and might cause a problem for the company.

It seems like cannabis companies are coming under the regulatory radar, and for good reason. Investors expect the highest level of ethics by the management of publicly traded companies.

Any behaviour short of investor expectations will result in massive pullbacks, as has been the case with several cannabis stocks.

CATEGORY

1. Cannabis Stocks
2. Investing

POST TAG

1. Cannabis
2. Editor's Choice

PARTNER-FEEDS

1. Msn
2. Newscred
3. Sharewise
4. Yahoo CA

Category

1. Cannabis Stocks
2. Investing

Tags

1. Cannabis
2. Editor's Choice

Date

2025/06/29

Date Created

2019/08/20

Author

araghunath

default watermark

default watermark