Why CannTrust (TSX:TRST) Shares Could Be Headed Even Lower

Description

CannTrust Holdings Inc (TSX:TRST)(NYSE:CTST) continues getting hammered as the share price has fallen more than $10 from where it was earlier in the year. The problem for CannTrust investors that may be hoping for some sort of a miracle is that things could be about to get even worse for the stock.

Recently, *The Globe and Mail* reported that due to the company's significant sell-off, the valuation has dropped enough that it's likely going to be removed from the **S&P/TSX Composite Index** as soon as this month.

Many index funds will thus sell shares of CannTrust as a result, which could mean up to 4.8 million shares flood the market, putting even more downward pressure on the share price.

It may be hard to believe that the stock could go any lower, but it's a very real possibility at this point. The expectation that there will be more shares on the market could also lead to more selling, as investors that may want to get out before that happens.

Decision from Health Canada still to come

The largest blow that could be dealt to the stock likely won't come from it being removed from index funds, but it could come from Health Canada.

With a decision on the company's alleged illegal operations still outstanding, it's only a matter of time before we find out what punishment CannTrust will face for its violations.

While there's no indication of what might happen to the company given that it now looks like multiple sites have run into problems, it's hard to imagine CannTrust coming away with a light punishment.

The company has made changes to its leadership, but that may not be enough to keep it from facing a possible suspension of its license. Such a punishment would be catastrophic and likely send the sell-off to a whole new level.

Is there any reason left to hold shares of CannTrust?

Investors still holding shares of the company are taking on some significant risk, and it's not a scenario that's likely to play out well. The danger with buying a stock that has fallen so much in value is in believing that it's reached a bottom.

In reality, a new bottom can always be around the corner, especially for a stock like CannTrust whose entire operations may be in jeopardy.

Even if by some miracle Health Canada allows CannTrust to keep operating, it would be a very uphill battle to earn back the trust of consumers and investors. Competition in the industry is getting more intense, and with plenty of cannabis stocks to choose from, CannTrust would have a difficult time convincing investors that it's a better buy given the challenges it would face.

However, this is not a scenario that appears probable at this point, so a safer option for investors could be to salvage what they have left of their investments and simply sell any remaining shares in CannTrust. Just because the stock has fallen as much as it has doesn't mean that it's likely to bounce back up.

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