



Investors: 2 Risky Cannabis Stocks You Need to Avoid

Description

Yesterday, I wrote about why cannabis stocks might be attractive to investors. The upcoming legalization of edibles is likely to drive investor optimism and might boost cannabis stocks.

But there are always stocks that are risky to invest in. Let's look at a couple of them here.

CannTrust Holdings

CannTrust Holdings (TSX:TRST)(NYSE:CTST) is one such risky stock among cannabis companies. TRST lost 3.9% in market value yesterday. TRST investors have lost over 70% since May 2019.

It's currently trading at \$2.24, which is 5.2% above its 52-week low and 86% below its 52-week high. There have been regulatory issues for TRST after the company was accused of manufacturing cannabis in unlicensed facilities.

CannTrust is [being investigated by](#) Health Canada and the Ontario Securities Commission. The stock slumped over 4% on August 19 after it announced that products amounting to \$2.9 million were returned to the Ontario Cannabis Store (OCS). OCS is Canada's wholesale to retail distributor. TRST had already stopped the sales of products worth \$51 million in July shortly after the scandal erupted.

Just to put these figures in perspective, CannTrust sales were \$33.9 million in 2018. Last month, CannTrust's lead auditor KPMG withdrew its audit report, citing the results as unreliable and inaccurate.

Analysts had earlier estimated CannTrust to grow revenue by 127.2% to \$77.08 million in 2019 and by 110.5% in 2020. But as its inventory has been withheld, these numbers need to be revised. There are too many uncertainties surrounding this company at the moment.

Investors will need to wait for the investigations to be over and then take a call. TRST was estimated to post an adjusted profit in 2020, which will make it an interesting pick after it is authorized to resume sales.

TRST has a 12-month average target price \$4.36, which is 95% higher than the current trading price. But this target does not make sense unless the company begins production and sales.

Namaste Technologies

Shares of **Namaste Technologies** (TSXV:N) are trading at \$0.64. The stock has lost close to 6% yesterday and is down 81% September 2018. Though the stock rose close to 5,600% between September 2014 and September 2018, the recent pullback has investors worried.

Namaste has been impacted by slowing sales. While company revenue rose to a record of \$5.6 million in the fiscal first quarter of 2018 (ended in February), it fell to \$4.1 million in the subsequent quarter.

Namaste sales continued to fall and dropped 18.5% in the first quarter of 2019. In the second quarter, Namaste reported sales of \$4 million, 2.4% below its sales of \$4.1 million in the prior-year period.

Namaste too has been [riddled with controversies](#). Last October, the company was accused of failing to disclose the sale of its U.S. subsidiary, which resulted in a class-action suit. Earlier this year, Namaste fired its CEO, while its auditor PricewaterhouseCoopers resigned in March 2019.

This deceleration in revenue decline might give hope for investors, but, similar to CannTrust, investors will be wary about unethical issues circulating Namaste. It's hard enough for investors to keep pick stocks that are winners. These scandals make it a tad easier for investors to eliminate them from a portfolio.

CATEGORY

1. Cannabis Stocks
2. Investing

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1. Cannabis
2. Editor's Choice

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