Will CannTrust Holdings (TSX:TRST) Rebound or Face Delisting?

Description

CannTrust Holdings (TSX:TRST)(NYSE:CTST) announced leadership changes in July in response to what has become known as the "CannTrust Scandal." On July 25, the board of directors released a statement that they had determined former CannTrust CEO Peter Aceto was complicit in the Health Canada licensing violations.

The board of directors did not stop at removing Aceto from his position with cause; they also requested resignation from Eric Paul, the former CannTrust chairman. Paul resigned upon their request without further comments. In their place, Mark Dawber assumed the role of chairman and Robert Marcovitch stepped in as interim CEO.

With the former leaders of the young cannabis company removed, CannTrust could potentially regain the trust of Health Canada and investors to bounce back from the revelations of illegal marijuana operations. The question is whether CannTrust can do this before the TSX officially delists the stock for poor exchange performance.

TSX implements more rigorous exchange requirements

Since its 52-week high of $15.50, CannTrust has fallen to $1.50 per share as of writing. That is a loss in value of over 90%. Stocks must maintain a float of a minimum 0.04% of the overall index to remain eligible for listing on the TSX. Similarly, on the NYSE, CannTrust must support a share valuation above $1 — a threshold that it is close to crossing at the current market price of $1.13.

CannTrust's float is now $88.4 million at a market capitalization of $166.91 million — less than the required threshold to meet the minimum requirement.

Bullish shareholders back in October of last year and March of 2019 have suffered a loss of almost their entire initial investment. This is why Canadian investors, especially those without much savings, should take precautions when investing in marijuana companies like CannTrust.

At the end of 2018, shareholder investigations into **India Globalization Capital** led to its removal from the New York Stock Exchange. Investors used Google Maps to research the corporate address and fact-check claimed partnerships. In the case of IGC, the corporate address was a residential home, and a collaboration with a Malaysian manufacturer was improbable due to the country's known enforcement of strict anti-marijuana regulations.

Foolish takeaway

It was not that long ago that marijuana was illegal. Some black-market producers can convert to legal operations and bring some corrupt business practices along with them. Properly vetting newly listed companies is crucial to making sound investment choices.

It may sound like a daunting task for inexperienced investors to analyze company financial data, but it is not as difficult as it sounds. We want to see more positive numbers than negative, especially when it comes to profit margins, revenue, and free cash flow. Moreover, as the CannTrust scandal has demonstrated, getting to know the leadership's values is more important than ever to make the right trading decisions.

As for CannTrust's future, hopefully, it can raise the necessary capital to maintain its exchange listings; otherwise, perhaps the board of directors can realign the company privately. In the meantime, Canadian investors should look into investing in today's number one marijuana stock in terms of revenue and sales growth: **Aurora Cannabis**.

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