



## Can You Trust CannTrust (TSX:TRST)?

### Description

It is pretty ironic that a company named **CannTrust** (TSX:TRST)(NYSE:CTST) broke the trust of its investors. Health Canada suspended CannTrust's licence to grow marijuana after reports that [it illegally grew weed in unlicensed rooms](#).

This scandal lead to the firing of the CEO and many other senior management. At the end of the day, though, I am willing to forgive CannTrust for what the company has done.

It is no secret that governments are extremely bureaucratic. The process to get things done through a government agency is a job in itself! By operating the illegal grow rooms, CannTrust was able to accept much more business than it would have without them.

Given that Health Canada is a governmental organization, who knows how long it would have taken for the rooms to be licensed? By that time, the contracts could have been awarded to other companies.

While I absolve CannTrust of its guilt, it remains a poor investment due to the lack of ethics by senior management and tight cash reserves.

### Lack of ethics

I know I've spent the first several paragraphs justifying the actions of CannTrust; however, at the end of the day, this scandal indicates that senior management seriously need ethics training.

I agree that senior management likely had the interest of investors in mind; however, with its current stock price, I can emphatically say that senior management has failed in that regard.

The issue with a scandal like this is it begets the question, "what else is the company hiding?"

An executive team with the audacity to dupe a government agency and the public certainly has other skeletons in its closet. The problem with this is investors never know if it is likely to benefit them down the road or harm them.

As an investor, I appreciate stability when investing in a company. Not in the sense of blue-chip, 100-year-old companies, but rather companies that don't surprise you.

The reason for this is because no surprises are good surprises. Even if a company releases news that causes the share price to increase and investors to make double-digit returns, that is due to dumb luck. It very well could have gone the other way.

Thus, CannTrust and its unethical management team is not an investment that I would consider.

## Tight cash reserves

Given that Health Canada has suspended its licence to grow any more weed, CannTrust needs to have massive cash reserves to maintain its current operations.

The company ended fiscal 2018 with \$9 million in cash, which is not good. With operating expenses of \$45 million in fiscal 2018 and current liabilities of \$17 million, the company will be on the hook for \$62 million of expense and liabilities in fiscal 2019, which cannot be met with current cash reserves.

## Summary

CannTrust has [dropped the ball in a big way](#). Senior management's lack of ethics and the company's tight cash reserves jeopardizes its ability to recover from this setback.

Unfortunately, a lack of ethics at the top permeates into the corporate culture, which means that even with the CEO and many senior management gone, it is very likely that the "cutting-corners" mentality will remain with the current employees.

This is definitely a stock to avoid.

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