



Marijuana Investors: The CannTrust (TSX:TRST) Situation Just Got Much Worse

Description

In the past year, **CannTrust Holdings** (TSX:TRST)(NYSE:TRST) has become the black sheep of the cannabis family. Thanks to a regulatory scandal that resulted in several holds on its product and [revocation of its licence](#), the stock went into a death spiral in the markets. As of this writing, the stock is down 87% from its peak 2019 closing price and has been hitting new lows seemingly every week. This past week actually saw a reversal of the trend, with the stock rising 40% in just a few days. However, recently, a story broke that could send the stock tumbling again.

\$77 million worth of product set to be destroyed

Last week, the *Canadian Press* reported that CannTrust was set to destroy [\\$77 million worth of product and inventory](#), in a bid to improve compliance with Health Canada regulations. The destroyed items work out to \$12 million worth of biological assets and \$65 million worth of unauthorized inventory. Although the destruction of these assets will help CannTrust with compliance, it also means that the destroyed product has no chance of ever being sold — even if CannTrust does get its licence back.

Licence hanging in limbo

Speaking of CannTrust's licence, it's not clear that the company will ever get it back.

In a recent article, Fool contributor David Jagielski wrote that while CannTrust does have a path to getting its licence back, there are many strings attached.

Health Canada has stipulated that CannTrust can get the licence back “if the reasons for the suspension no longer exist or if CannTrust demonstrates that the suspension was unfounded.” The latter option is likely out, since CannTrust has already conceded to the unlicensed growing.

The former is possible, as Jagielski pointed out, since it only requires greater compliance going forward. However, the fact that CannTrust has attracted unwanted regulatory attention in the past means that the company will likely be under increased scrutiny, making it harder to ensure full

compliance.

Foolish takeaway

CannTrust's Health Canada scandal was one of the biggest news stories in the cannabis industry in 2019.

The scandal sent TRST shares tanking and arguably took other marijuana stocks down as well.

Right now, CannTrust is working hard to re-build its reputation. The destruction of biological assets is a part of that. As a bid to increase compliance, it could help the company get its licence back. However, the move takes a whopping \$77 million worth of product out of the company's inventory permanently.

Most likely, CannTrust's destruction of assets couldn't be avoided. If the company ever wants to start selling cannabis again, it will have to prove compliance with Health Canada regulations. As the inventory was allegedly grown without proper licensing, it will have to be destroyed for CannTrust to be re-licensed. However, the fact that it has come to this is a bad sign for investors, as the financial consequences may set CannTrust's earnings back several years — assuming the company is ever allowed to grow cannabis again.

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