



Can CannTrust (TSX:TRST) Stock Double Your Money?

Description

CannTrust Holdings (TSX:TRST)(NYSE:CTST) could be one big cannabis name that blemished the industry reputation much more than any other due to its size, popularity, and the nature of its premeditated regulations violation, but the stock is a potentially rewarding contrarian buy for traders today, as shares could double.

As I argued in an [opinion piece earlier](#), the stage has been set for the company to have its suspended cannabis sales and processing licences restored by a Health Canada that has seemingly shown some level of lenience in its tone and approach.

It's relatively easy for the company to step up and convince the regulator to reinstate its production, processing and sales licences as the spelt requirements are evidently simple, straight forward, and not in any way punitive.

Rather, in a press release this month, the interim chief executive was upbeat enough to say, "We have already made significant progress in these efforts. Our goal is to meet and exceed Health Canada's regulatory standard, and to rebuild the trust and confidence of our primary regulator, investors, patients, and customers."

The company is advancing its plans towards regulatory compliance and is destroying about \$77 million worth of biological assets and scandal-affected inventories.

These inventory losses aren't crippling, and they could have already been replenished by now, as the company continued to grow pot even after suspending its sales months ago.

Even better, with more regulatory clarity, there could emerge a strategic buyer for the company's assets, and given the \$200 million cash position in June, which could be a significant component of the share price right now, liquid assets could be a very good valuation buffer.

That said, even if licences are restored, there are still some threats to the potential share price surge.

Threats to the recovery

Investor lawsuits have a good chance for success, and these may drain financial resources in legal defences and through potential claims settlements.

Further, licence suspensions could take very long to be lifted. Regulators move at their own desired pace. **Aphria** is yet to obtain its production licences for its biggest Aphria Diamond facility since submitting applications back in March 2018. We may not know what the issues at Aphria are, but we could still see the same scenario at CannTrust, especially considering the now dented compliance reputation.

The longer the period before sales resumption, the harder it is for a full operational comeback and the weaker the balance sheet becomes for the company.

Most noteworthy, the company's once strong medical cannabis portfolio has been busted, and competitors are enjoying the spoils. The market may not easily forgive and forget, and rebuilding trust can be an insurmountable task.

Worse still, all the firm's licences may still be revoked. The scandal isn't over yet.

Foolish bottom line

We saw the share price rise over 50% after the October 14th announcement in which management promised to submit a detailed compliance plan to Health Canada by October 21. If that is enough precedence, imagine how violent the valuation surge could be on the day the company announces a full restoration of its licences.

That said, I [still believe](#) that, "for CannTrust stock to recover, the company has to retain its cannabis licences, preserve cash resources until sales resume, hope to retain its client base, and minimize regulatory penalties while vigorously defending investor lawsuits."

While a recovery may mean a more than doubling in the share price, there are still many significant risks on the investment that could make shares tank or trade sideways for much longer than one may be comfortable with.

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