



## CannTrust (TSX:TRST) Goes From Bad to Worse: AVOID THIS STOCK!

### Description

The advent of the legal marijuana industry and the legalization of recreational marijuana sales in Canada seemed to come like a blessing for all. In anticipation of the legalization just over a year ago, stock prices for the entire legal pot sector skyrocketed. Right after the legalization, companies struggled to reach profitability as fast as they expected to.

Investors got bored with the pot industry after it underperformed. Around July 2019, regulatory missteps started coming to light regarding **CannTrust Holdings** (TSX:TRST)(NYSE:CTST) operations. The company shattered the trust of investors, analysts, and regulatory bodies through its [scandal](#).

Health Canada, the regulatory body that provides oversight for the legal cannabis industry in Canada, suspended CannTrust's sales and production licences in September. CannTrust has a lot to do to earn everyone's trust.

### A plan to make amends

The embattled pot grower has submitted a remediation plan to Health Canada in an attempt to regain the trust of the regulator. The company wants to return to compliance, and it is aiming to complete all of the activities it detailed in the plan by the end of Q1 2020. The remediation plan by CannTrust includes several activities.

CannTrust has an expanded internal training program, a bolstered operations framework, infrastructure enhancements, prescribed accountabilities, and a strengthened governance structure, among many more items as a part of its plan. The chairman and interim CEO of CannTrust, Robert Marcovitch, is confident that the company will be able to address all the compliance issues.

### Cutting costs to make things work

The halt in production and sales licence means there is not a lot of money coming in. CannTrust has

subsequently started to lay off employees to reduce the overall costs of operations. The company is “temporarily” laying as many as 140 people — a quarter of its workforce. The staff cut should save an estimated \$400,000 monthly.

The move is only temporary, and CannTrust holds itself liable to pay \$800,000 to the employees in case it does not recall the employees within 35 weeks. Marcovitch said that the move to temporarily lay off so many people was a difficult decision for the company but a necessary one. A reduced workforce reflects the requirements of the company right now.

The operating expenses should support financial sustainability for the shamed cannabis producer, and it puts CannTrust in a reasonable position to resume full production after the [licences are restored](#) — the CEO’s words, not mine.

## Foolish takeaway

I do not like talking with such conviction about any stock, regardless of the industry it operates in, but you still *cannot trust* CannTrust. The pot producer is down 88% from its 52-week high at the current share price of \$1.62. Despite its recent move to follow through with a remediation plan to regain Health Canada’s trust, I strongly feel that this is a stock to avoid.

If the company’s licence is reinstated, current investors can see their investments go up twice or thrice. I doubt that makes much of a difference with how much the stock has fallen. There is also a chance that Health Canada might not approve the licence. That could see the share going to zero. Be careful with this one.

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