



Move Over CannTrust (TSX:TRST): This Pot Stock Has Its Own Regulatory Woes!

Description

The **CannTrust Holdings Inc** (TSX:TRST)(NYSE:CTST) [regulatory scandal](#) was one of the biggest cannabis stories of 2019.

When a medium-sized cannabis producer was found growing cannabis in unlicensed rooms, it sent shockwaves through the industry. Not only was CannTrust forced to destroy copious amounts of its product, but it also lost its licenses and had the Ontario Cannabis Store return \$2.9 million worth of cannabis.

Naturally, the scandal sent CannTrust's stock tumbling. Other cannabis stocks started falling at the same time, possibly on the sentiment that other producers could be caught up in similar drama.

If it could happen to CannTrust, the theory went, it could happen to anybody else—particularly given the rush to get cannabis ready for legalization and the corner-cutting that resulted.

Now it appears that sentiment was correct, as another cannabis producer is facing heat over unlicensed growing. Although this company is so far getting more merciful treatment from Health Canada than CannTrust did, its problems are the first confirmation we're getting that CannTrust's problems aren't confined to that company.

Depending on how this plays out, we could be seeing the beginning of an industry-wide scandal that keeps stock prices low for the foreseeable future.

Hexo Corp

Hexo Corp ([TSX:HEXO](#))(NYSE:HEXO) is a small-cap cannabis producer best known for its ventures in cannabis-infused beverages. Having started a [joint venture](#) with **Molson Coors Brewing**, it's better positioned for mass distribution of cannabis beverages than any of its competitors.

The company is also a huge growth success, having increased revenue by 993% year over year in its

most recent quarter. Although it lost money in the same quarter, that kind of growth is something worth noting in itself.

Why it's destroying its cannabis

In May of 2019, Hexo acquired a Niagara cannabis facility from Newstrike Brands.

A few months afterward, it discovered unlicensed growing at the facility and immediately notified Health Canada. Prior to this, Health Canada itself inspected the facility, but found no unlicensed growing.

After discovering the unlicensed activity at its own facilities and notifying Health Canada, CannTrust destroyed all the product originated in unlicensed areas. This echoes what happened earlier with CannTrust, although Hexo has been given far more lenient treatment from Health Canada, which said it was "satisfied" with the company's corrective actions.

Reasons for optimism

Although the similarities between Hexo and CannTrust are hard to deny, there are many differences between the two situations that provide reason for optimism.

First, Hexo voluntarily found and reported its own unlicensed growing, whereas CannTrust had its unlicensed rooms reported by a whistle blower.

Second, Hexo inherited its unlicensed areas after an acquisition, whereas CannTrust's were homegrown.

Third, Hexo has received express confirmation from Health Canada that the agency was satisfied with its corrective actions, something that CannTrust didn't receive.

These factors provide optimism that Hexo won't lose its license. Nonetheless, the fact that a second cannabis producer discovered unlicensed growing at one of its facilities could be an early signal of trouble for the industry—even if Hexo itself appears safe for now.

CATEGORY

1. Cannabis Stocks
2. Investing

TICKERS GLOBAL

1. NASDAQ:HEXO (HEXO Corp.)
2. TSX:HEXO (HEXO Corp.)

PARTNER-FEEDS

1. Business Insider
2. Msn
3. Newscred

4. Sharewise
5. Yahoo CA

Category

1. Cannabis Stocks
2. Investing

Date

2025/08/27

Date Created

2019/11/25

Author

andrewbutton

default watermark

default watermark