



## CannTrust (TSX:TRST) Stock Income Re-Audit a Market Mover

### Description

When a pot stock gets caught growing black market weed in secret rooms with fake walls, the board of directors fires the CEO, regulators scrutinize financial documents, and exchanges threaten to de-list the shares. At least, that's what happened in the case of the cannabis stock **CannTrust Holdings** (TSX:TRST)(NYSE:CTST).

On Tuesday, CannTrust announced that the Toronto Stock Exchange might de-list its shares. If this pot stock doesn't file its audited financial restatements for the year 2018 by March 25, 2020, it will no longer qualify for listing on the TSX.

Everyday Canadian investors may be wondering, "What is a financial restatement?" Public companies must file restatements when regulatory bodies deem it necessary to scrutinize more highly the [reported financial data](#). In other words, financial restatements are requirements when regulators accuse companies of misreporting financial data and engaging in illegal activity.

### Illegal inventory is expensive

By now, every Canadian investor should be aware of the infamous CannTrust scandal, which is the reason for the financial probe. Regulators discovered serious legal infractions, casting doubt on the veracity of the stock's financial statements.

CannTrust got into trouble at the end of 2018 when Health Canada discovered secret marijuana grow rooms. The company had constructed false walls to hide the activities. After the discovery, the board of directors conducted an internal review of the situation and fired the CEO after determining that he was complicit in the scandal.

Health Canada responded to the incident by suspending CannTrust's licence to produce and distribute marijuana. In October, the company lost \$77 million when it had to destroy cannabis plants and inventory upon request from regulators. As a result, CannTrust had to lay off 140 employees to save money.

## The revised financial report will be a market mover

KPMG, a top global accounting firm, withdrew its approval of CannTrust's year-end and interim financial reports for the year 2018 in light of the scandal. Even CannTrust's select investigative committee admitted to the reputable accounting firm that the financial statements are likely inaccurate. Thus, this financial restatement is a pretty big deal.

The financial restatement will make top headlines when CannTrust does finally make a public filing of the documents. Law enforcement will likely take large swings in the revenue data seriously as they investigate the level of criminal activity in the organization. Even more important to shareholders, the information will undoubtedly cause substantial volatility in the stock price.

## Cheap stocks are not always value investments

CannTrust stock is now down to \$1.10 per share and a market cap of \$155.32 million as of writing. In the past year, disappointed shareholders have driven down the stock price by nearly 87%. The stock's assets are [heavily discounted](#) at \$0.61 per dollar of book value, because they are worthless without a Health Canada licence.

Cannabis shareholders should take this as a cautionary tale. Be careful what stocks you trade regardless of the industry. Marijuana stocks are not the only enterprises breaking the law to make money. There's a long list of companies like CannTrust that can absolutely not be trusted.

Thoroughly research your investments, or you might be wishing you had later when news hits that the profits are not honest.

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