



Which Health Care Stock Belongs in Your Portfolio?

Description

Health care is a sector that's very underrepresented in Canada, with only two names in the **S&P/TSX 60** index. By comparison, healthcare makes up about 12% of the **S&P 500**.

This is partly due to our public health care system, which eliminates the need for massive health insurance companies, so as Canadians we should be thankful. However, as investors, it presents a problem, because as populations age, healthcare companies stand to benefit immensely; it would be nice to try to take advantage of that in our portfolios.

On that note, below we take a look at Canada's two large companies in the health care sector.

1. Valeant Pharmaceuticals

There is perhaps no Canadian company more polarizing than **Valeant Pharmaceuticals** (TSX: VRX)(NYSE: VRX). To the company's credit, its shares have been on a tear recently, thanks to CEO Michael Pearson's acquisition-first strategy. Over the past five years, the stock has returned 56% per year.

However, there are some big question marks about Valeant. The problems stem mainly from the company's accounting, which gets very complicated due to the high level of acquisitions. In fact, the company itself reports financial measures such as "adjusted operating cash flow" and "cash earnings per share" that exclude many acquisition-related costs. On a reported basis, Valeant actually lost \$2.70 per share last year. Some very smart people, such as famous short-seller Jim Chanos, are betting against the company.

There are also some very smart people who think the run won't end. Chief among them is activist investor Bill Ackman of Pershing Square, who would become a major shareholder if Valeant's acquisition of **Allergan** (NYSE: AGN) is successful. Mr. Ackman has been continually defending Valeant on television shows.

2. Catamaran

Less well-known is the pharmacy benefit manager **Catamaran** (TSX: CCT)(NASDAQ: CTRX). Despite being part of the **S&P TSX/60**, Catamaran makes all of its money in the United States, which allows the company to benefit from some very favourable trends.

One such trend is the increase in prescription drug spending as a result of the Affordable Care Act. The ACA will result in more people being covered by a health plan. This includes pharmacy benefits, as well as maximums on how much the patient has to cover for drugs out-of-pocket. Furthermore, the aging population will also drive drug spending — Americans are forecast to spend nearly \$500 billion on drugs by 2020, a big increase over the \$250 billion spent in 2009.

In addition, Catamaran does not have the same accounting issues as a company like Valeant, so if you're simply looking to make a bet on the health care sector, this is the better stock of the two.

CATEGORY

1. Investing

TICKERS GLOBAL

1. NYSE:BHC (Bausch Health Companies Inc.)
2. TSX:BHC (Bausch Health Companies Inc.)

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