Why Catamaran Corp Is a Good Long-Term Growth Stock

Description

In today's world where almost everything works at the click of a button, it's evident that technology plays a dominant role in almost every single industry.

When one thinks of technology companies, the usual suspects like **BlackBerry Ltd** and **CGI Group Inc.** come to mind. However, there's one lesser-known company that has a good long-term growth story: **Catamaran Corp** (TSX: CCT)(NASDAQ: CTRX). Catamaran sells pharmacy benefit and medical record-keeping software to businesses in the U.S.

The health care industry is one sector that is seeing a tremendous amount of technology spending. The rollout of the Affordable Care Act in the United States, or "Obamacare", is just the first step that makes the private and public benefit exchanges that companies like Catamaran run much more valuable.

Good long-term growth story

Let's get into detail about why Catamaran may be a good long-term growth stock.

For starters, it has pretty much beaten analysts' consensus on revenue, and is starting to grow. The company, which was initially headquartered in Milton, Ontario, reported a healthy revenue increase of 57.6%, driven by a near 50% increase in claims volume. While management guided slightly lower for the full-year revenue and EPS figures, there's nothing to be nervous about, in my opinion. That's because it seems like management pulled the bottom end of the previous guidance range higher and tightened it a little bit.

Secondly, Catamaran's acquisitions in the last few years have been lucrative to its earnings. The recent Restat acquisition and Cigna contract integrations made a meaningful contribution to the top line. Although the profitability of the Cigna contract is expected to remain subdued in the coming few quarters, the company said it expects solid accretion from the contract from 2015 onwards.

Thirdly, on a valuation basis, Catamaran is trading at roughly 20 times its earnings, which is great for a decent growth company. It has about $10 billion in market capitalization, sales of around $20 billion, and earnings per share of over $2. The company's stock currently trades around $44.50, with a 52-week low of $36.98 and a high of $57.90. The consensus is that it will hit $59-60 in the next year, with some analysts even anticipating it to top $65, which is realistic.

Analysts' ratings

Analysts seem to be rather positive on Catamaran. Roughly 69% have a "buy" recommendation on the stock, while 28% of analysts have a "hold" rating. The remaining lot have slapped on a "sell" recommendation.

Given all these positives in favour of the company and the fact that the stock is trading at cheaper multiples than we have seen in a long time, I think it's a good time to buy the stock.

CATEGORY

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