



Catamaran Corp.: A Gem in the Healthcare Sector

Description

As you know, your portfolio should typically have exposure to various sectors that do well in different market environments. The healthcare sector, in particular, is considered a defensive one that does well in times of economic uncertainty and weakness. As such, the TSX healthcare index (TSX: ^TTHC), which consists of only three companies, has returned a whopping 174% in the last five years.

Regardless of our call on the economy and on which sector will outperform, the fact remains that there is a long-term secular trend in place here that is in full force and to which investors would be wise to have exposure, i.e., the aging population and consequent expected acceleration in demand for healthcare products and services. Let's review the biggest healthcare names on the TSX and determine where the best value lies.

Catamaran Corp. (TSX: CCT)(NASDAQ: CTRX)

Though Catamaran may be experiencing margin pressure, it still looks good.

This provider of pharmacy benefit management services and technology is one that's poised to do well. It helps its customers reduce the cost of their pharmacy benefits while increasing the care of its members. Things have been good for the company, which manages more than 350 million prescriptions each year. With prescriptions expected to increase almost 100% by 2020, its potential gains are huge. 2013 was another very strong year as revenue increased 49%, EBITDA jumped 79%, and cash flow from operations rose 90%.

More recently, second-quarter results have not been as stellar, with revenues increasing an impressive 58% but on weaker margins. Gross margin was 6.3% for the quarter versus 7.7% in the prior year. This pressure on margins and the fact that one client, HealthSpring, represents 20% of 2013 revenue lend risk to the company's performance. But strong growth headwinds, a healthy balance sheet, and opportunities for further consolidation balance out these risks nicely.

Valeant Pharmaceuticals (TSX: VRX)(NYSE: VRX)

Stay clear of Valeant Pharmaceuticals. This company may have been a phenomenal performer, with a

five-year return of almost 700%, but it would seem wise to look elsewhere for exposure to the healthcare sector. Firstly, investors should be cautious with this name, as its strategy is to grow through acquisitions and the sustainability of this strategy is questionable. Furthermore, these acquisitions have largely been financed with debt, and the company currently has a heavy debt load on its balance sheet. Secondly, it was recently disclosed that the IRS has placed the company under review for the years 2010 through to 2012. And this type of investigation usually spells trouble.

Name to watch: Cipher Pharmaceuticals Inc. ([TSX: DND](#))

With a market capitalization of almost \$300 million, Cipher Pharmaceuticals is a name in the Canadian healthcare space that is looking interesting. It is a specialty pharmaceutical company that develops and commercializes improved formulations of existing drugs. Earnings are expected to increase 26% in 2014 and the stock trades at a price-to-earnings multiple of a mere 11.2 times.

In the most recent quarter, revenue increased 58% due in large part to the strong performance of Absorica, its severe acne treatment drug. This company has a very attractive risk/reward profile, with \$39.7 million in cash at the end of the second quarter, three products on market, and no debt. This leaves it with the resources to continue to invest in the development of new products and continue to grow its portfolio of products.

Bottom line

Here in Canada, our healthcare industry is small, yet there have been some gems. At this time, I see one stable company (Catamaran) that should continue to grow and reward shareholders, and another company (Cipher) that is fast growing, highly profitable and could bring very big rewards to shareholders in the coming years.

CATEGORY

1. Investing

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1. NASDAQ:CAMP (CalAmp Corp.)
2. NYSE:BHC (Bausch Health Companies Inc.)
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Date

2025/08/03

Date Created

2014/09/24

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