Does the Post-Earnings Weakness in Catamaran Corp.'s Shares Represent a Buying Opportunity?

Description

Catamaran Corp. (TSX:CCT)(NASDAQ:CTRX), one of the world's leading providers of pharmacy benefit management services and technology solutions, announced better-than-expected fourth-quarter earnings on the morning of February 26, but its stock has responded by falling over 4.5% in the trading sessions since. Let's take a closer look at the quarterly results to determine if we should consider using this post-earnings weakness as a long-term buying opportunity, or a warning sign.

Breaking down the better-than-expected results

Here's a summary of Catamaran's fourth-quarter earnings results compared to what analysts had expected and its results in the same period a year ago.

Metric	**Reported**	**Expected**	**Year Ago**
Earnings Per Share	$0.67	$0.62	$0.56
Revenue	$5.74 billion	$5.54 billion	$4.53 billion

Source: Financial Times

Catamaran's adjusted earnings per share increased 19.6% and its revenue increased 26.7% compared to the fourth quarter of fiscal 2013. The company's very strong revenue growth can be attributed to sales increasing in both of its major segments, including 26.9% growth to $5.7 billion in its Pharmacy Benefits Management segment and 13.1% growth to $44.33 million in its Health Care Information Technology segment. Its near 20% increase in earnings per share can be attributed to adjusted net income increasing 18.5% to $138.42 million, which was helped by total operating expenses decreasing 1.9% to just $194.92 million.

Here's a quick breakdown of eight other notable statistics and updates from the report compared to the year-ago period:

1. Gross profit increased 12% to $364.03 million
2. Gross margin contracted 90 basis points to 6.3%
3. Earnings before interest, taxes, depreciation, and amortization (EBITDA) increased 21.9% to $221.82 million
4. EBITDA margin contracted 10 basis points to 3.9%
5. Operating profit increased 34.1% to $169.11 million
6. Operating margin expanded 10 basis points to 2.9%
7. Net cash provided by operating activities increased 16.8% to $163.05 million
8. Ended the quarter with $1.01 billion in cash and cash equivalents, an increase of 11.6% from the beginning of the quarter

Catamaran also provided its outlook on fiscal 2015, calling for the following performance:

- Adjusted earnings per share in the range of $2.45-$2.60
- Revenue in the range of $23.5 billion-$24.5 billion
- EBITDA in the range of $905 million-$930 million

Should you buy shares of Catamaran today?

Catamaran Corp. is a leading provider of pharmacy benefit management services and technology solutions, and increased demand for its offerings led it to a better-than-expected fourth-quarter performance, but its stock has responded by falling over 4.5%.

I think the post-earnings drop in Catamaran's stock represents a great long-term buying opportunity because it trades at low valuations, including just 24.7 times its median earnings per share outlook of $2.53 for fiscal 2015 and only 21.7 times analysts' estimated earnings per share of $2.88 for fiscal 2016, both of which are inexpensive compared to its five-year average price-to-earnings multiple of 47.4.

With all of the information provided above in mind, I think Foolish investors should strongly consider using the post-earnings weakness in Catamaran Corp.'s stock as a long-term buying opportunity.

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