



Why Concordia Healthcare Corp.'s Shares Rallied 16% on Friday

Description

Concordia Healthcare Corp. (TSX:CXR)(NASDAQ:CXR), one of the world's largest healthcare companies focused on legacy pharmaceutical products and orphan drugs, announced very strong third-quarter earnings results after the market closed on November 12, and its stock responded by rising 16% in the trading session that followed.

Even after this rally, the stock still sits more than 62% below its 52-week high of \$89.10 reached back in September, so let's take a closer look at the results and the fundamentals of the stock to determine if this could be the start of a sustained rally higher and if we should be long-term buyers today.

A quarter of top- and bottom-line growth

Here's a summary of Concordia's third-quarter earnings results compared with its results in the same period a year ago. All figures are in U.S. dollars.

Metric	Q3 2015	Q3 2014
Adjusted Earnings Per Share	\$1.46	\$0.57
Revenue	\$94.91 million	\$36.43 million

Source: Concordia Healthcare Corp.

Concordia's adjusted earnings per share increased 156.1% and its revenue increased 160.5% compared with the third quarter of fiscal 2014. These very strong results can be largely attributed to the company's \$1.2 billion acquisition of 18 products from Covis Pharma, which was completed in April and contributed approximately \$52.9 million in revenue in the third quarter.

Here's a quick breakdown of six other notable statistics from the report compared with the year-ago period:

1. Revenue increased 210.3% to \$90.6 million in its Legacy Pharmaceutical division
2. Revenue decreased 20% to \$2.4 million in its Orphan Drugs division

3. Revenue decreased 54.8% to \$1.9 million in its Specialty Healthcare Distribution division
4. Gross profit increased 170.4% to \$86.35 million
5. Adjusted earnings before interest, taxes, depreciation, and amortization increased 254% to \$71.72 million
6. Operating income increased 160.4% to \$35.7 million

Concordia also made two important announcements. First, it announced that it will be maintaining its quarterly dividend of \$0.075 per share, and the next payment will come on January 29 to shareholders of record at the close of business on January 15. Second, it announced its preliminary guidance for fiscal 2016, calling for adjusted earnings per share in the range of \$6.29-6.77 and revenue in the range of \$1.02-1.06 billion.

Is the rally warranted and can it continue?

It was a phenomenal quarter overall for Concordia, so I think the large post-earnings pop in its stock is warranted. I also think this could be the start of a sustained rally higher and that the stock represents a very attractive long-term investment opportunity today.

I think this because the stock still trades at just 7.5 times fiscal 2015's estimated earnings per share of \$4.43 and a mere 5.1 times the company's median earnings-per-share outlook of \$6.53 for fiscal 2016, both of which are very inexpensive compared with its five-year average price-to-earnings multiple of 138.3 and the industry average multiple of 31.2.

Even with the current headwinds in the market and the issues related to price gouging in the pharmaceutical industry, I think Concordia's stock could consistently trade at a fair multiple of at least 10, which would place its shares upwards of \$65 by the conclusion of fiscal 2016, representing upside of more than 96% from today's levels. This projection is also very reasonable when you consider that it would still trade more than 27% below its current 52-week high of \$89.10.

With all of the information provided above in mind, I think Concordia Healthcare is one of the top value plays in the healthcare industry today. Foolish investors should take a closer look and consider beginning to slowly scale in to long-term positions over the next couple of trading sessions.

CATEGORY

1. Investing

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