



Why Concordia Healthcare Corp. May Give Your Portfolio the Boost it Needs

Description

For investors of **Concordia Healthcare Corp.** (TSX:CXR)(NASDAQ:CXRX), the past six months have been awful. It is down 65% from its 52-week high of \$117 per share. While other biotechnology stocks have fallen significantly, Concordia has dropped even more.

Part of what has driven this drop is the political candidates in the United States, such as Hillary Clinton, calling out pharmaceutical companies that acquire other companies and then jack the drug prices up. While the focus was on **Valeant Pharmaceuticals Intl Inc.**, because Concordia operates in a somewhat similar fashion, investors ran for the exits and, for the most part, have not looked back.

The thing is, I don't believe that the business justifies it being so undervalued. While the fourth-quarter results are due very soon, we can get an idea on its business growth looking at the third quarter.

Its adjusted earnings per share were US\$1.46 on revenues of US\$94.91 million. Year over year, that grew from an adjusted EPS of US\$0.56 on revenues of US\$36.43 million. Part of what drove that significant growth is the fact that it purchased 18 products from **Covis Pharma** for \$1.2 billion. This diversification helped it move away from its primary product: Donnatal.

Its recent acquisition of Amdipharm Mercury Ltd., which it bought for US\$3.5 billion, also opens it up to incredible opportunities over the next few years.

For example, Amdipharm operates in more than 100 countries, whereas Concordia previously derived the bulk of its earnings in the United States. The Amdipharm products give Concordia the ability to not only generate new revenue, but they will also open up markets for Concordia's own products now that it has connections in these 100 nations.

According to the guidance the company gave in February, it expects that its revenue will be somewhere between US\$1 billion and US\$1.06 billion. Further, it expects that its earnings per share will be anywhere from US\$6.29 to US\$6.77. Based on its third-quarter results, this is a significant improvement.

While all of this is fine, what you should care about are the gains. Right now, Concordia is priced at

approximately 6.7 times its earnings, which is really cheap. If the company's EPS grows by 12% each year for the next couple of years, like the company expects, the price should appreciate nicely. If we don't factor that growth in, the price will rise to \$60 if it can start trading at 10 times its 2015 earnings. Expand that to 13 times its 2015 earnings and you've got a stock trading at \$85 per share.

There's no denying that Concordia got hammered in the markets when Hillary Clinton turned her focus on pharmaceutical companies that overcharge for drugs. However, Concordia is currently incredibly underpriced, which I believe is a fantastic opportunity for investors to exploit. If others are afraid of this stock, you should be greedy.

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Date

2025/08/23

Date Created

2016/03/09

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