Is Concordia Healthcare Corp. or Valeant Pharmaceuticals Intl Inc. the Better Buy?

Description

Concordia Healthcare Corp. (TSX:CXR)(NYSE:CXRX) has been plagued with trading in correlation to **Valeant Pharmaceuticals Intl Inc.** (TSX:VRX)(NYSE:VRX). While Valeant has fallen more than 70% year-to-date, Concordia has fallen 30%.

Whenever Valeant has had a down day, Concordia has dropped, too. For instance, on March 17 Valeant fell almost 12% and Concordia fell 8%. The sky is falling for these biotech companies. What is causing this?

Recent developments of Valeant

Valeant is a global specialty pharmaceutical company that develops and markets prescription and non-prescription pharmaceutical products. It has an aggressive acquisition strategy, a debt-to-cap ratio of 80%, and an S&P credit rating of B+.

Lately, Valeant's use of specialty pharmacies, especially Philidor, and its drug price increases have been in the spotlight. Other concerns about Valeant include its delayed filing of its 10-K form and that it could fail to pay back some of its debt.

Additionally, Valeant recently pared down its revenue and earnings expectations. It now anticipates its revenue to be about 12% lower than its previous guidance. Specifically, it expects revenue to be US$11-11.2 billion instead of US$12.5-12.7 billion. It also anticipates its earnings per share (EPS) to be more than 23% lower than its former guidance. Specifically, it expects EPS of US$9.5-10.5 instead of US$13.25-13.75.

Recent developments in Concordia

Concordia has a debt-to-cap ratio of 53%, an S&P credit rating of B, and it also has historicallyacquired other companies. Its most recent acquisition was Amdipharm Mercury Company (AMCo). The acquisition greatly diversified Concordia's product offerings by adding a portfolio of over 190 complementary niche pharmaceutical products with high barriers to entry.

Additionally, AmCo opened the doorway for Concordia to have a commercial presence in more than 100 countries. AMCo is anticipated to be immediately accretive to Concordia's adjusted EPS with more than 35% accretion forecasted in the first full year, and it will help Concordia deliver long-term revenue and earnings growth.

At the end of 2015, Concordia's debt to EBITDA (net income adjusted for net interest expenses, income tax expenses, depreciation, and amortization) was about six times, which was higher than the typical investor's appetite for debt levels. In November Concordia anticipated debt to EBITDA to fall to 5.5 times by the end of 2016.

This year Concordia anticipates to generate about US$1 billion of revenue; 40% of that will come from the United States and 60% will come from other countries. None of its products are expected to account for more than 10% of revenue. Further growth is expected to come from its launch of up to 60 products in the next three years.

Conclusion

At under $39 per share, Valeant is priced at a dirt-cheap forward multiple of under 3.4 times. Although Valeant is a cheaper stock and could shoot up over 300% to 15 times earnings, it can continue to experience bad headlines, which would bring down the stock.

I like Concordia's story better. At under $38 per share, Concordia is priced at a forward multiple of 4.3-4.6 times based on November's adjusted EPS guidance of US$6.29-$6.77. Its multiple can expand to 21.5 times, which would imply price appreciation of almost 400%. Still, if Valeant falls further from any bad news, Concordia is likely to fall with it.

Investors will need to decide if they can stand these volatile stocks, which could rise or fall in the double digits. For example, Valeant fell over 50% in a single day on March 15!

There's negative sentiment revolving around these biotechnology companies right now. However, investors could potentially make huge gains from these stocks if they're able to hold for three to five years (if the companies don't go bankrupt).

If you like the companies after doing your own research, a prudent strategy is to average in to your positions on dips and ensure these companies don't exceed 2% of your portfolio if you view them as speculative investments.

CATEGORY

1. Investing

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1. NYSE:BHC (Bausch Health Companies Inc.)

2. TSX:BHC (Bausch Health Companies Inc.)

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