# Why Contrarian and Growth Investors Should Consider Concordia Healthcare Corp.

## Description

**Concordia Healthcare Corp.** (TSX:CXR)(NYSE:CXRX) is an internationally diversified company focused on legacy pharmaceutical products and orphan drugs. It is based in Oakville, Ontario, and has subsidiaries which operate in Bridgetown, Barbados, London, England, and India.



**What happened in 2015?**

Concordia reported its 2015 results on March 23. Here are the highlights:

- Achieved global scale, providing patients with about 200 products in more than 100 countries
- Year-over-year revenue grew US$289 million (+276%)
- Year-over-year EBITDA grew US$206 million (+347%)

The strong revenue growth is attributed to Concordia's strategic acquisitions of Covis Pharma S.à.r.l. and Covis Injectables S.à.r.l. (Covis), and U.K.-based specialty pharmaceutical company Amdipharm Mercury Limited (AMCo) that occurred in 2015.

The Covis acquisition added products to Concordia's branded portfolio, and the AMCo acquisition added over 190 products to the portfolio as well as a global platform for expansion.

Specifically, the AMCo acquisition added US$115.7 million of revenue, and the Covis acquisition added US$127.4 million of revenue. Investors should note that these are not full-year contributions because AMCo was acquired in October 2015 and Covis was acquired in April 2015. Excluding the Covis and AMCo acquisitions, the organic revenue growth in 2015 would have been US$46.1 million (+44%).

Accordingly, the cost of sales increased 85% from US$12.8 million in 2014 to US$23.7 million in 2015 because Concordia has been selling more products that require more input costs for pharmaceutical ingredients, packaging, freight costs, royalties, etc.

On December 22, Concordia made a debt principal payment for two loans that totaled US$45 million;

25% was repaid and US$135 million still remained.

As of December 31, Concordia had cash of US$155.4 million and US$200 million available from an undrawn, secured revolving credit facility.

**2016 guidance**

As Concordia pays down its debt over the quarters, it expects to bring down its net-debt-to-EBITDA to 5.5 times by the end of the year.

Assuming a constant currency (based on an exchange rate of US$1.53 to GBP$1), Concordia expects the following in 2016:

- Revenues of US$1.02-1.06 billion, of which more than 60% will be generated outside the U.S.
- Adjusted EBITDA of US$610-640 million
- Adjusted net income of US$330-355 million
- Adjusted earnings per share of US$6.29-6.77

**Conclusion**

Management favours paying down Concordia's debt more than increasing the dividend, which I think is the right thing to do because some investors are reluctant to invest in it because of its higher-than-average debt levels. As Concordia pays down its debt over the quarters, I expect its share price to creep upwards.



Concordia expects double-digit growth this year but, at about $40, it's only priced at a multiple of about 6.5. So, contrarian investors should consider this name that has fallen more than 50% in the past 12 months. By investing in Concordia, investors should expect most returns to come from price appreciation because the company's dividend yield is only about 1%.

**CATEGORY**

1. Dividend Stocks
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