Why Did Concordia Healthcare Corp.'s Share Price Fall?

Description

In 2015 **Concordia Healthcare Corp.** (TSX:CXR)(NASDAQ:CXRX) experienced superb growth. It generated sales of US$394.2 million, 276% higher than the year before. Its 2015 acquisitions of Covis in April and AMCo in October contributed their fair shares–32% and 29% of total sales, respectively. Excluding the acquisitions, Concordia still increased sales by 44%.

So, what's the problem? Why did shares fall?

Cost of the acquisitions

The combined 2015 acquisitions were worth US$4.3 billion. Sure, Concordia raised some capital via equity offerings, but the bulk of the capital came from issuing debt. Specifically, US$3.1 billion of net proceeds came from lending facilities, and eight million shares of common stock were issued.

At the end of 2015, Concordia had US$3.525 billion of interest-bearing debt, of which US$203.7 million were short-term obligations and US$3.32 billion were long-term obligations.

The total debt at the end of 2015 were as follows:

- US$1.865 billion were term loans that mature in six years, have variable interest rates, and require fixed payments over the term to maturity
- US$135 million were bridge loans with annual interest rates of 9.5% for the first two years. The US$22.5 million loan had a term of two years. If the US$112.5 million loan was not repaid in two years, the interest rate would increase to 11.5% and might be converted to a five-year bond
- US$790 million senior notes with an interest rate of 9.5% for a seven-year term
- US$735 million senior notes with an interest rate of 7% for an eight-year term

In 2015 Concordia paid US$42.9 million of interest payments and US$10.1 million of dividends. Both amounts will rise because new shares and much of the loans were issued during 2015.

Can Concordia sustain itself?

Concordia believes its operating cash flows can provide the liquidity it needs to support its business operations for at least the next 12 months.

As of the end of 2015, Concordia had US$155.4 million of cash and up to US$200 million available from an undrawn secured revolving credit facility to meet any unexpected cash requirements.

Valuation

Concordia should continue digesting its acquisitions and pay back some of its debt in the next two years. Anticipating average double-digit growth for the next two years, the shares could expand from its current multiple of 5.3 to a multiple of 10, implying the shares could trade at US$75 on NASDAQ and $100 on the Toronto Stock Exchange for about 180% upside or an annualized rate of return of 80% over two years.

Conclusion

Investors are most likely concerned about Concordia's debt levels, which sits at a debt-to-cap ratio of 73%. Whether or not Concordia can propel its shares higher depends on its ability to generate cash flows for its obligations. As it pays back its debt, its shares should head higher.

Nevertheless, Concordia is not for the faint of heart. It is a highly volatile stock as it fell 56% from a 2015 high of $80 to $35 today.

CATEGORY

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2. Investing

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