Why Did Concordia Healthcare Corp. Spike 25%?

Description

Concordia Healthcare Corp. (TSX:CXR)(NASDAQ:CXRX) has been more volatile than the common stock. From a high of over $100 in mid-2015, it fell to about $31 on Wednesday. Then, around midday on Thursday, it spiked 25%!

What caused the spike?

Blackstone Group LP (NYSE:BX) is considering taking over Concordia. For those of you who don't know about Blackstone, it's a global alternative asset manager that invests for the long term.

In its annual chairman letter for 2015, it stated, "[Blackstone's] differentiating strengths [include] the ability to invest at scale, analyze complex situations, commit capital quickly, and provide innovative solutions." This allows it to invest for favourable risk-adjusted returns and to ultimately deliver above-average, long-term returns.

The fact that Blackstone is interested in Concordia means that it finds significant value in Concordia and that the risk-adjusted returns are favourable.

The buyout discussion is still in its early stages. So, it may or may not happen. However, there's no argument that Concordia is trading too cheaply.

Value proposition in Concordia

Even after rising 25% (and trading was halted by IIROC in the process), Concordia is still only trading at about 6.1 times its earnings, though it's expected to experience double-digit growth in the next two years.

Last year Concordia experienced superb growth. It generated sales of US$394.2 million, which was 276% higher than 2014. Concordia's amazing growth was attributable to its 2015 acquisitions of Covis in April and Amdipharm Mercury Limited (AMCo) in October.

They contributed 32% and 29% of total sales, respectively. And those were only partial-year contributions. This year will mark their full-year contributions, which should contribute to even higher revenues.

Debt

The main concern with Concordia is the debt it took on to complete the Covis and AMCo acquisitions. The first acquisition cost US$1.2 billion, and the second cost US$3.1 billion. As a result, in Concordia's 2015 annual report, it reported having US$3.32 billion of long-term debt.

In fact, Concordia's biggest expense item in 2015 was its interest and accretion of US$127.8 million, which accounted for 36% of the year's expenses. Excluding the US$57.2 million of acquisitions, restructuring costs, and other one-time expenses, its interest and accretion expenses would have accounted for an even higher percentage of its annual expenses–43% to be exact.

Conclusion

In the next couple of years, as Concordia continues to digest its acquisitions and lower its debt levels, and as it continues its double-digit growth trajectory, the shares could experience a multiple expansion from 6.1 times its earnings to 10 times its earnings.

So, shares could trade at US$75 on the NASDAQ and $100 on the TSX for about 145% upside in two years.

Concordia Healthcare is a strong candidate for a "double down" stock for risk-adverse investors.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. NYSE:BX (The Blackstone Group L.P.)

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