



Is Concordia Healthcare Corp. a Buy on Takeover Rumours?

Description

Investors of **Concordia Healthcare Corp.** (TSX:CXR)(NASDAQ:CXRX) got a little reprieve on Thursday when the stock spiked 25% on rumours that **Blackstone Group LP** ([NYSE:BX](#)) was considering taking the company over. While the stock is still nowhere near its +\$100 price it was enjoying in mid 2015, any increase is appreciated.

Blackstone clearly sees a company that is undervalued and will provide solid returns. And this buyout makes sense. According to one analyst, Concordia fits the bill for private equity because it has significant cash flow, its products have high margins, and it is diversified across multiple products.

Naturally, investors are considering whether or not to acquire shares on these rumours. In my opinion, I don't like gambling on rumours that may or may not come to fruition. There's no denying that Concordia is appropriately priced for a takeover, but too many things can go wrong when takeovers are in discussion.

However, that doesn't mean investors shouldn't buy this stock with a long-term mentality because even after rising 25%, it is still incredibly underpriced.

At \$41 a share, the stock is trading at a little over six times earnings. Even better, it is only trading at 4.2 times its forward earnings. The company expects its earnings to grow significantly and, if previous years reveal anything, future growth is lucrative.

In the third quarter, its adjusted earnings per share were US\$1.46 on revenues of US\$94.91. Compare that with the previous year's adjusted EPS of US\$0.56 on revenues of US\$36.43. A big reason why the company was able to increase its earnings so significantly is because it integrated 18 products from **Covis Pharma** for \$1.2 billion.

Guidance given by the company in February suggested that it would have earnings anywhere between US\$6.29 and US\$6.77.

On top of that, it also acquired Amdipharm Mercury Ltd. for US\$3.5 billion, which should continue to help with earnings over the next few years. However, a big reason why I like this deal is because it

gives Concordia access to over 100 countries. Presently, the bulk of Concordia's earnings come from the United States; now it can sell its products in these other countries.

But let's think about this from an analytical perspective...

With the stock trading at 6.1 times earnings, it is obviously very cheap. Assume that it was trading at 10 times its 2015 earnings and you see a price per share at \$60. Grow that to 13 times 2015 earnings, and the stock trades at \$85. It is easy to see why Blackstone wants to acquire Concordia. Even if it pays \$50 a share, it's still getting the stock for much cheaper than a very conservative 10 times multiple.

My recommendation is that investors should seriously consider acquiring shares of this company. While the takeover could limit the return on investment, I believe the future is very bright for this company. Even if the takeover doesn't happen, you'll be in a position to reap strong returns over the next few years. Acquiring shares now, even after a 25% increase in price, is still a smart move.

CATEGORY

1. Investing

TICKERS GLOBAL

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

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1. Investing

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