Is Concordia Healthcare Corp. Too Cheap to Ignore?

Description

Talk about a highly volatile stock! Within a year, **Concordia Healthcare Corp.** (TSX:CXR)(NASDAQ:CXRX) has declined more than 60% from over $100 to $40 per share today. In fact, in just a single day on May 31 Concordia's shares fell more than 7%.

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At today's share price, Concordia trades at a forward multiple of four. Is it too cheap to ignore?

First, let's get a sense of its business.

The business

Concordia owns a diversified portfolio of branded and generic prescription products. It has three operating segments, including Concordia North America, Concordia International, and Orphan Drugs.

The Concordia North America segment focuses predominantly on the U.S. pharmaceutical market. Its North American portfolio consists of branded products and authorized generic contracts.

Products include Donnatal, which treats irritable bowel syndrome, Nilandron, which treats metastatic prostate cancer, Lanoxin, which treats mild to moderate heart failure and atrial fibrillation, and more.

The Concordia International segment consists of Amdipharm Mercury Limited (AMCo), which was acquired by Concordia in October 2015. It focuses on acquiring, licensing, and developing off-patent prescription medicines that are niche or hard-to-make products.

AMCo has a diversified portfolio of branded and generic products that it sells to wholesalers, hospitals, and pharmacies in more than 100 countries.

Sales

In the first quarter that ended on March 31, Concordia earned revenue of US$228.5 million; 37.6% came from the North America segment, 61.2% came from the International segment, and 1.2% came from the Orphan Drugs segment.

Revenue was 570% higher than the first quarter of 2015. However, it's difficult to compare the results of these quarters because of the AMCo and Corvis acquisitions that both occurred after March last year.

That said, its corporate and operating costs only went up 539% in comparison.

Debt and liquidity

The concern for investors is likely that Concordia primarily used debt to fund the acquisitions. As of March 31, 2016, the company sits on $3.3 billion of long-term debt; about 31% of Concordia's debt has a maturity date within five years.

The company believes that operating cash flows should offer sufficient liquidity to support the company's business operations for at least the next 12 months.

Additionally, if there's a need for liquidity, Concordia can draw up to $200 million from a secured revolving loan.

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Conclusion

Concordia financed its acquisitions primarily through debt. The heavy debt has weighed on its shares, which only trade at a forward multiple of four.

As its acquisitions show success and as Concordia pays off its debt, it will move progressively higher. However, there's no question that it is riskier than the average stock with a debt-to-cap ratio of 74% and an S&P credit rating of only B, which is not investment grade.

If you're looking for growth and can take on above-average risk, Concordia may fit in your diversified portfolio. Personally though, I wouldn't bet the farm on it.

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1. Editor's Choice

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