Concordia International Corp.'s Latest 50% Drop Is Attracting Some Institutional Investors

Description

Concordia International Corp.'s (TSX:CXR)(NASDAQ:CXRX) stock has been under some fierce pressure lately after a slew of negative news, dismal quarterly results, and industry pressures that have dragged the stock to a recent 52-week low. This is a company that was valued at $2 billion less than four months ago.

Since the last half of 2015 the pharmaceutical industry has faced pressure from government and private agencies cracking down on its pricing practices. This hasn't gone over well with the public, and considering the outcome of the U.S. elections, this negative sentiment is likely to continue into the near term.

The company was also affected by a dismal Q2 2016 earnings release, which was underpinned by a $567 million impairment charge. In addition, it reported $2.4 million in foreign exchanges loses due to the Brexit. This translated into a loss of $11.28 per share.

All of this has weighed heavily on the company's stock, dragging it down by approximately 80% from its 2016 high of $57.70 per share.

A turnaround story

There still remains some uncertainty about the direction of the industry; however, most companies have realized this and are taking the necessary steps to reduce their cost structure to offset the expectation of lower prices. Hence, Concordia's $567 million write-down with respect to two North America segment products: Nilandron and Plaquenil.

The company attributed these impairment charges to competitive market pressures and decreased sales volumes. During the quarter the company recorded $306,189 impairment with respect to Nilandron and $260,887 impairment with respect to Plaquenil.

If you're concerned about the company's solvency, the impairment charge and foreign exchange loss did reduce the company's shareholder's equity by $789, increasing its debt-to-equity ratio to 9.5 times, which is a little unnerving. However, the company has stated it's confident that it will be able to service any debt obligations.

If you set aside the impairment charge and examine its Q2 financial results year over year, they paint a slightly brighter picture. Revenues increased by $351 million, or 321%, of which 60% of those revenues were from the Concordia's international business segments. This is beneficial considering the low Canadian dollar. Using the sales-comparison method, selling, marketing, G&A, and R&D costs decreased by approximately 7% year over year, indicating that the company is adapting to an expectation of a lower price environment.

A signal that the company's stock could be oversold is the growing interest from private equity firms. This week famed billionaire investor Steve Cohen's firm, Point72 Asset Management, filed a Form 13G with the SEC reporting that it had acquired 5.8% of the company's outstanding shares.

It may be a long shot, but a possible acquisition shouldn't be ruled out once there is some more pricing certainty in the industry. Earlier in the year, the company was the target of a potential takeover by the **Blackstone Group LP**, which priced the company at $2 billion, or $38.65 a share.

Value investors should place this stock on their speculative buy list and monitor its trading activity.
It may remain out of favour in the near term, but once the dust settles, there could be significant upside potential.

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