Is Concordia International Corp. a Smart Buy at These Prices?

Description

It has not been a good summer for **Concordia International Corp.** (TSX:CXR)(NASDAQ:CXRX). At the beginning of June the company was trading at $40 per share, it was getting rid ready to pay $0.075 in dividends, and people were clamouring for a bigger company to buy it. But as the summer progressed, shares dropped.

And then a couple of weeks ago it lowered its revenue and earnings guidance and suspended the dividend. The stock entered a free fall and now trades at $11.50. Now investors are asking themselves if they should be buying this stock at $11.50 a share. Let's look at the business and what's going on to make that determination.

Concordia is a pharmaceutical company that followed a similar path to **Valeant Pharmaceuticals** in its quest to acquire as many assets as it possibly could. Unlike Valeant, it hasn't used shady accounting and bizarre business dealings, so investors were hoping it would come out of this unscathed.

One of its largest acquisitions, Amdipharm Mercury Ltd. for US$3.5 billion, gave it access to over 100 countries–something the company didn't have before. And it also bought and integrated 18 products that it acquired from **Covis Pharmaceutical** for $1.2 billion.

But the problem with all of these different acquisitions is that they push debt higher and higher. According to Concordia, the year-end net debt/EBITDA will by approximately 6.4 times. This is far higher than the 5.5 times it was in the first quarter. Investors are concerned that this debt will become too much of a burden for the company.

And with revenues being cut from US$1.02-1.06 billion to US$859-888 million and EBITDA cut from US$610-640 million to US$510-540 million, investors are going to be particularly concerned.

Presently, management is confident that it will be able to handle its debt obligations and stay solvent. Some analysts are unconvinced. One analyst believes that it will take the company 12 years to pay off its debt. Another analyst believes that it will experience significant difficulty in paying its loans back when they start coming due in 2021.

Fortunately, not everyone is pessimistic about the company. Point72 Asset Management, a firm run by Steve Cohen, revealed that it had increased its holding of Concordia shares to 2.97 million from under 1.2 million in June. This was up significantly from the 65,100 shares it owned on March 31. This accounts for approximately 5.8% of the company's shares. Cohen is considered one of the best investors on the planet, so if he sees an opportunity, one might exist.

In my opinion, the best bet for Concordia (and its investors) is an acquisition. **The Blackstone Group L.P.** (NYSE:BX) had been considering an offer a few months ago, but decided not to acquire it. With the stock now in the lurches even more, Blackstone might look to buy the distressed company and then turn things around. That's what firms like Blackstone excel at.

Right now, though, I'm sitting on the sidelines. While a small position might be a smart move, until we know more about its strategy to get out of debt, this stock is a risky investment.

CATEGORY

1. Investing

TICKERS GLOBAL

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

Category

1. Investing

Date
2025/08/18
Date Created
2016/08/26
Author
jaycodon