

## An Amazing Small-Cap You Wish You Owned

### Description

When it comes to investing in health care, investors would likely think of big U.S. companies such as **Johnson & Johnson** ([NYSE:JNJ](#)) and **Amgen, Inc.** ([NASDAQ:AMGN](#)). Yet here's a Canadian company that has greatly outperformed both in the last 12 months. And no, this is not a story about chasing the next hot stock.

**CRH Medical Corp.** ([TSX:CRH](#))(NYSE:CRHM) has appreciated 112% in the last year. Compare it to Johnson and Johnson, that has climbed 15% and Amgen, which has declined 14%. Even including dividend returns, Johnson and Johnson returned about 18% and Amgen about -12%.

There are multiple factors contributing to CRH Medical's recent surge as it trades 40% higher than it did just three months ago.

First, size matters. Second, CRH creates value in a needed business. Third, big financial institutions have begun their coverage on the company and have started buying in.

### Size matters

It's kind of unfair that I'm comparing CRH Medical with Johnson and Johnson and Amgen. CRH Medical has close to a \$500 million market cap, while the big companies' market caps are US\$322 billion and US\$106 billion, respectively.

If two companies are doing the right things, it's the smaller one that will have a bigger impact; CRH Medical is 644 times smaller than Johnson and Johnson and 212 times smaller than Amgen.

### An essential business

CRH Medical is a North American company that provides physicians with services and products to treat gastrointestinal diseases.

It started off by training physicians to use the CRH O'Regan System, which is an innovative way to treat hemorrhoids. It involves using a single-use device that removes hemorrhoids with no pain or surgery.

The company still experiences good growth from this business. In the third quarter, its revenues from the business were 10% higher than they were a year ago. In the first nine months, its revenues were 11% higher.

A small, square image of a smiling female doctor with short dark hair, wearing a white lab coat over a dark top.

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## Investing in a related business to propel growth

As the hemorrhoids-treating business started to mature, CRH Medical began investing in anesthesia companies. On the company's website, it says that "roughly 50% of colonoscopies and upper endoscopies are now performed using a dedicated anesthesia provider". Since 2014 the company has acquired nine anesthesia companies.

As stated in the Q3 report, "The company's goal is to establish [itself] as the premier provider of innovative products and essential services to gastroenterologists throughout the United States."

In the third quarter, its anesthesia services generated 111% higher revenues than they did a year ago. This is thanks partially to the acquisitions of three anesthesia companies in the quarter located in Texas, Massachusetts, and Colorado. CRH Medical owns a majority and controlling interest in each company.

## More coverage implies the news is out

Big financial institutions have started their coverage on the company. CIBC Capital Markets started its coverage in September, followed by RBC Capital Markets in October.

In fact, some hedge funds have already started buying the company. For example, Ativo Capital Management LLC and **Bank of Montreal** bought a new position of \$1 million and \$1.2 million, respectively, in Q2. CIBC World Markets Inc. increased its stake in CRH Medical by 31% in Q3. Its stake is now worth \$1.8 million.

## Conclusion

Just because hedge funds are buying doesn't mean you should. Now that the news is out and with CRH Medical's recent surge, its shares can run out of steam in the near term.

On a forward-looking basis, the stock trades at a 2016 forward multiple of 38, which is not outrageously expensive given its growth potential.

Cautious investors should wait for some sort of consolidation or a meaningful dip—perhaps from more acquisition news—before buying.

On top of that, although Johnson and Johnson and Amgen were used to compare against CRH Medical, they're actually much more diversified and are perceived to be much lower risk investments than CRH Medical.

For the time being, CRH Medical is a hold. If the company continues to execute well as it has in the past, it will eventually lead to new heights.

## CATEGORY

1. Investing

## TICKERS GLOBAL

1. NYSE:JNJ (Johnson & Johnson)

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