



Jean Coutu Group PJC Inc.: Buy the Dip?

Description

Jean Coutu Group PJC Inc. (TSX:PJC.A) is a Canadian drugstore chain with over 400 franchised stores in Quebec, New Brunswick, and Ontario under various banners including PJC Jean Coutu.

The company also owns a generic drug manufacturer based in Quebec called Pro Doc Ltd. Shares are currently down around 30% from their January 2015 highs, and many value investors may be wondering if the beaten-up business is a suitable rebound candidate.

The company recently reported its fiscal Q1 2018 results this week, which saw revenue increase by 3.7% to \$750.4 million compared to the same quarter last year. Net income was clocked in at \$45.5 million, or \$0.25 per share for the quarter, which was down from \$49 million, or \$0.27 per share, from the same quarter last year.

The smaller profit was attributed to the smaller contribution from Pro Doc's generic drug business, which saw consolidated operating income before amortization decrease by \$15.1 million following a regulatory change.

Decreased profitability for Pro Doc

Going forward, it's expected that generic price decreases will continue to be a drag on Pro Doc's profitability. Quebec is doing everything it can to reduce costs in its healthcare system. Unfortunately for Jean Coutu, its subsidiary Pro Doc has taken a hit on the chin because of regulations which were put in place.

Francois J. Coutu, CEO of Jean Coutu, stated that he's "confident" that an agreement will be made between stakeholders and the Quebec government.

I'm not sure what will result will be, but one thing is for sure: the relationship between Jean Coutu and the Quebec government remains tense. Prospects for Pro Doc aren't looking too great right now, but this concern is pretty much baked in to the depressed stock price already.

Jean Coutu has a solid 2.58% dividend yield, which is considerably higher than the company's

historical yield which hovered around 1.9%. I think investors should consider adding Jean Coutu to their radars since the company is likely to enjoy the trend of increasing prescription drug sales over the next few years as the Baby Boomer generation continues to age.

Valuation

The stock currently trades at a 18.61 price-to-earnings multiple, which is substantially higher than the company's five-year historical average price-to-earnings multiple of 13.6.

Although this may seem expensive, it's worth noting that shares currently have a three price-to-book multiple and a 1.2 price-to-sales multiple, both of which are lower than the company's five-year historical average multiples of 3.8, and 1.4, respectively.

Although shares are unlikely to rebound over a short period of time, I believe Jean Coutu is a great long-term play. Patient investors will do well by picking up shares at these levels.

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