TFSA Investors: 1 Low-Risk Value Stock With Significant Upside

Description

Knight Therapeutics (TSX:GUD) was founded in 2014, and the company aspires to become a leading, global specialty pharmaceutical company. Knight is focused on building a portfolio of innovative products through in-licensing or acquiring product rights.

Transformative acquisition

In 2019, the company announced that it had entered an agreement to acquire the controlling interest in Grupo Biotscana (GBT), a pan-Latin American specialty pharmaceutical company. GBT operates in the fast-growing Latin American region and focuses on rapidly growing market segments such as oncology and hematology, infectious diseases, and other specialty therapeutic areas. GBT is currently present throughout 10 Latin American countries where it operates through four companies.

In 2019, Knight completed the acquisition of 51.2% of GBT. The company later announced that it had requested authorization to carry out a unified tender offer to acquire the balance of GBT. Upon settlement of the united tender offer, Knight acquired 99.9% ownership in GBT.

Significant buybacks

Since inception, the company has raised gross proceeds of $685 million through issuance of 109 million common shares at prices ranging from $3.50 to $10. In 2019, Knight launched a normal course issuer bid (NCIB) to acquire up to 12 million common shares of the company. In 2020, Knight completed the NCIB and purchased cumulative total of 12 million common shares at an average price of $7.14 per share. Subsequently, Knight launched a second NCIB to acquire up to 10.8 million common shares of the company.

In the most recent quarter, the company has acquired 3.8 million common shares at an average price of just $5.40 per share under the second NCIB. Further, in December 2020, the company filed a shelf prospectus, which enables Knight to offer for sale up to $360 million of common shares, subscription receipts, and debt securities of Knight during the 25-month period after filing of the shelf. This provides the company with the financial ability to make strategic acquisitions if needed.

Flexible business model

Knight has committed to invest over $125 million with nine life sciences debt or equity fund managers, all of which can leverage life sciences industry experience and existing relationships with key life science companies to help secure product rights for Knight. During 2019, Knight determined that while the fund strategy has been financially successful, the strategy has not been successful from a business development perspective as it has led to only two product licence agreements. Consequently, Knight demonstrated flexibility by determining that it would not be investing in any new venture capital funds.

Knight has invested over $170 million through strategic debt financing to over a dozen companies with the objective of deploying capital in low-risk, fair-return opportunities while helping to secure Canadian and select international product rights. During 2020, Knight continued building the company's infrastructure to acquire in-licence and commercialize innovative products for the Canadian and Latin American market. In 2020, the company continued to advance Knight's Canadian portfolio by obtaining approvals from Health Canada for several products.

At current prices, Knight appears to be ridiculously cheap. The company is taking advantage of market inefficiencies by buying back a lot of stock. This should increase intrinsic value and serve long-term shareholders well.

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