



5 Reasons Why This Pharma Stock Is Poised for Takeoff

Description

Investing in the right mix of pharma stocks can give your portfolio a nice boost. With an aging population and breakthroughs in biotechnology, the pharmaceutical industry is [well positioned for future growth](#). However, picking the best pharma stocks can be a difficult task. The future success or failure of many pharmaceutical companies typically depends on the fate of a handful of drugs in the development pipeline. With the high costs of R&D, competitive pressures, and the uncertainties associated with gaining regulatory approval for new products, picking the right companies can sometimes feel like a shot in the dark.

If you're looking for a new pharma stock with high growth potential but are concerned about the high risks that are typically associated with the pharmaceutical industry, you should carefully consider **Knight Therapeutics** ([TSX:GUD](#)).

Knight Therapeutics is a Montreal-based speciality pharmaceutical company that was [spun off from the hugely successful Paladin Labs in 2014](#). The company is focused on acquiring, in-licensing, selling, and marketing pharmaceutical products, customer health products, and medical devices in Canada and in select international markets. It also finances other pharmaceutical and life science companies, giving it additional product distribution rights.

Knight Therapeutics's 2017 revenue and net income was \$8.6 million and \$17.2 million, respectively. The company can be categorized as high growth, with revenue growing at a compound annual growth rate of 187% from 2014 to 2017.

Knight Therapeutics's stock price has seen a slight uptick in 2018, but it's still currently about 20% off its February 5, 2017, all-time high of \$10.84 per share. Investors have been cautious because of the company's high P/E ratio of over 60. Some believe that future growth projections do not justify such a high P/E. However, a closer look at the fundamentals of the company suggests that this might be the perfect time to buy.

Here are five reasons why Knight Therapeutics could be poised for takeoff.

It has a solid business plan that minimizes risk

Unlike many competing firms, Knight Therapeutics does not invest heavily in risky in-house, early-stage drug development. Instead, the company accesses new breakthrough drugs through its strategic investments and lending. This means that it has lower operating expenses and less need for expensive physical infrastructure and equipment.

It continues to have one of the best balance sheets in the business

The company has over \$760 million in cash and marketable securities (75% of total assets) and no long-term debt. It has more than enough cash to cover its short-term liabilities and make future investments that will drive growth.

Its current price-to-book ratio is low

Knight Therapeutics's average price-to-book ratio over the last five years is almost 1.4 compared to the current price-to-book ratio of around 1.2. Since most of its assets are liquid, the stock is probably close to its price floor right now.

Its loan portfolio continues to yield attractive returns

Knight Therapeutics's strategic investments are often in the form of secured loans. These loans typically yield low double-digit interest rates and, in fact, are currently the main source of income for the company.

High revenue growth should continue as new drugs come through its pipeline

In the first quarter of 2018, Knight Therapeutics reported revenue of \$3.15 million, which was 80% more than the previous quarter. The company is steadily building up its product portfolio. In early 2018, it received regulatory approval in Canada for Probuphine™, a drug that treats opioid dependence. There are several products in phase II and III. These new products should allow the company to maintain its growth trajectory.

Overall, if you are looking for a pharma company with a great risk/reward balance, Knight Therapeutics is a solid choice.

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Date

2025/08/24

Date Created

2018/08/04

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