



Valeant, Capstone Higher But For Opposite Reasons

Description

Is that a whiff of corporate acquisition activity hitting the headlines? And a completed deal in the mining space to boot? Wow!

Shares of **Capstone Mining** ([TSX:CS](#)) and **Valeant Pharmaceuticals** (TSX:VRX, NYSE:VRX) are up by about 3% today. One because they completed a deal. The other because they didn't.

The deal that clicked

Capstone announced the \$650 million acquisition of **BHP Billiton's** ([NYSE:BHP](#)) Pinto Valley mine in Arizona. A combination of cash and credit will be used to fund the acquisition that will double the company's production and firmly places Capstone amongst the world's leading mid-tier copper producers.

Prior to this deal, Capstone carried no debt on its balance sheet and was therefore in a very good position to go shopping for assets.

Some view the price Capstone paid as too high. Deutsche Bank had the value pegged at just \$274 million, while RBC saw \$600 million as a break-even price. Capstone sees lower than expected cash costs of \$1.80/lb over the next five years and a reserve base that could grow as justification for the price paid.

This deal takes BHP's total asset sales over the past five months to \$5 billion as the global miner trims its non-core operations.

And the one that didn't

It appears that last week's rumours of an all-stock merger between \$22 billion Valeant and \$13 billion **Actavis** (NYSE:ACT) will remain just that after talks reportedly broke down over the weekend.

From a balance sheet perspective, this deal looks frightening. Although Actavis' debt/equity ratio of 167% is relatively gorgeous compared to Valeant's 297%, both are high. Real high.

Valeant's strategy to seemingly buy up everything in sight comes with a high-degree of risk. At some point, they are bound to bite off more than they can chew. These Valeant deals may look good in an analyst's spreadsheet today, but that debt load is going to come back to bite if interest rates don't co-operate. Careful with this one.

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