2 Controversial Stocks With High Returns — Are They Worth the Risk?

Description

These two companies seem to have a lot in common. Both have richly rewarded their shareholders in recent years, but not without controversy. Specifically, observers have called into question their accounting practices, and a lot of smart people are betting that their share prices will fall. At the same time, many other smart people believe these companies will continue to soar. If the past is any indication, this second group of people will be right.

1. Valeant Pharmaceuticals

If you bought shares in **Valeant Pharmaceuticals** (TSX: VRX)(NYSE: VRX) five years ago and held on, then congratulations. Over this time, the company's shares have returned 60% per year.

The key to Valeant's success has been its emphasis on acquisitions, led by CEO Michael Pearson. By simply buying drug portfolios and drug companies, Valeant saves itself from having to incur steep research and development costs. Once an acquisition is made, Valeant has proved itself very adept at wringing costs out of its acquired business.

But this strategy has created some controversy, specifically surrounding Valeant's accounting practices. First of all, the company is able to showcase inflated margins because its acquisitions save it from normal business expenses like R&D. Secondly, Valeant reports numerous accounting measures, like adjusted operating cash flow and cash earnings per share, that don't include accounting-related costs. As an investor, it can be difficult to gauge just how profitable the company really is.

The stock is also quite expensive by almost any standard, trading at over six times revenue. It's not easy to tell whether Valeant justifies such a stock price, but it is easy to realize that this stock is a gamble.

2. CGI Group

Although **CGI Group's** (TSX: GIB.A)(NYSE: GIB) shares haven't performed as well as Valeant's, they're still nothing to sneeze at. Over the past five years, CGI's shares have returned 29% per year, but also like Valeant, this has not come without controversy.

The problem once again concerns accounting, specifically related to acquisitions. It's a common trick for acquirers to write down an asset right before buying it — the asset can then be written up again once it's owned, helping to boost revenue and earnings. CGI is accused of abusing this practice, especially with its gigantic purchase of Logica in 2012.

So while it may be tempting to buy either of these companies, both of them are a gamble that's probably not worth taking.

CATEGORY

1. Investing

TICKERS GLOBAL

1. NYSE:BHC (Bausch Health Companies Inc.)
2. NYSE:GIB (CGI Group Inc.)
3. TSX:BHC (Bausch Health Companies Inc.)
4. TSX:GIB.A (CGI)

Category

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