Invest in China With Valeant Pharmaceutical Intl Inc.

Description

Valeant Pharmaceuticals International Inc. (TSX:VRX)(NYSE:VRX) has been very quiet since it failed to acquire Botox-maker **Allergan, Inc**. It was announced on November 17 that Allergan had agreed to be acquired by **Actavis plc**. Since then, Valeant's shares have grown by over $46 a share.

Investors are clearly happy with where the company is headed. And they should be, because Valeant has a unique business model that allows it to grow without spending tremendous amounts of money on R&D.

Buy rather than research

Over the past few years, Valeant has focused on buying companies rather than investing in new drugs. In many cases, the creation of a single drug from concept to commercialization can cost $1 billion. What's really dangerous about that is many drugs go through many stages of investment and then are rejected by health agencies. That's a lot of money spent without anything to show for it.

Valeant would rather buy companies that have products already well into development. Valeant then cuts research and development on fringe products, synergizes the sales forces, and streamlines the overall business. If a company has 10 products in the pipeline, Valeant may slash five because they are too far away from commercialization.

Many argue that this is bad because no research means the company can't grow organically. The CEO of Valeant disagrees with this claim, arguing that many of its products are grown from within and that it just doesn't throw money at the wall hoping it will stick.

China is its future

The types of products that Valeant creates are targeted toward the middle class. It's advertising during the Super Bowl for a foot fungus treatment. It creates a lot of ophthalmological products. These are examples of products that people who have spare money can think about.

And China is getting to the point where its people are starting to join this middle class. Thanks to its acquisition of Bausch & Lomb, Valeant now has a strong foothold in China. When the Chinese start to think about buying contacts, Valeant will be in a prime position to supply these products to them. Other pharmaceutical companies don't have the type of stronghold that Valeant has, so they will struggle to gain market share.

In 2013, China saw a 25% increase in contact lens usage. With a population over 1 billion, there is still plenty of room for Valeant to grow in Asia.

Some concern

There is some concern, though, about Valeant. Its P/E of 108.69 is astronomical. Further, it does not pay any dividends to investors. And finally, it has a lot of debt on its books. Fortunately, the company is focusing on paying its debt down, so it won't be making new acquisitions for at least a few months.

All in all, Valeant is a good company. It's rewarded investors with an incredible increase in share price. However, if you are looking to generate dividends, it's not the company for you. Instead, you might want to check out our report on three really great dividend paying companies.

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Date
2025/08/03
Date Created
2015/01/29
Author
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