Buy Valeant Pharmaceuticals Intl Inc. Now, or You'll Regret it Later

Description

Valeant Pharmaceuticals Intl Inc. (TSX:VRX)(NYSE:VRX), one of the largest specialty pharmaceutical companies in the world, announced better-than-expected second-quarter earnings results before the market opened on July 23, and its stock responded by rising over 9% in the trading session that followed.

Let's take a closer look at the results to determine if we should consider buying in to this rally, or if we should wait for it to subside.

Surpassing analysts' expectations with ease

Here's a summary of Valeant's second-quarter earnings results compared to what analysts had anticipated and its results in the same period a year ago.

Metric	Reported	Expected	Year-Ago
Adjusted Earnings Per Share	$2.56	$2.46	$1.91
Revenue	$2.73 billion	$2.54 billion	$2.04 billion

Source: Thomson Reuters Corporation

Valeant's adjusted earnings per share increased 34% and its revenue increased 33.9% compared to the second quarter of fiscal 2014. These very strong results can be primarily attributed to growth in the U.S. market, in which the company's product sales soared 77.3% to $1.84 billion, driven by the strength in its dermatology, contact lenses, dental, and skin care product categories.

Here's a quick breakdown of six other notable statistics from the report compared to the year-ago period:

1. Product revenues increased 35.1% to $2.7 billion
2. Other revenues decreased 20.4% to $37.4 million
3. Adjusted net income increased 37.9% to $897.1 million

4. Operating income decreased 3.8% to $341.5 million
5. Net cash provided by operating activities increased 9.2% to $410.5 million
6. Adjusted cash flow from operations increased 54.5% to $772.8 million

Valeant also raised its full-year outlook for fiscal 2015, calling for earnings per share in the range of $11.50-$11.80 and revenue in the range of $10.7 billion-$11.1 billion, compared to its previous outlook of earnings per share in the range of $10.90-$11.20 and revenue in the range of $10.4 billion-$10.6 billion.

Could Valeant's stock head even higher?

It was a very strong quarter for Valeant, so I think its stock responded correctly by rallying over 9%. I also think the stock could continue higher from here, because it still trades at attractive forward valuations, including just 29.3 times its median earnings per share outlook of $11.65 for fiscal 2015 and only 22 times analysts' estimated earnings per share of $15.49 for fiscal 2016, both of which are inexpensive compared to the industry average price-to-earnings multiple of 37.1 and its five-year average multiple of 159.6.

I think Valeant's stock could consistently command a fair multiple of at least 35, which would place its shares upwards of $407 by the conclusion of fiscal 2015 and upwards of $542 by the conclusion of fiscal 2016, representing upside of more than 19% and 58%, respectively, from today's levels.

With all of the information above in mind, I think Valeant Pharmaceuticals represents one of the best long-term growth opportunities in the market today, so Foolish investors should strongly consider beginning to scale in to positions.

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1. Editor's Choice

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