



## Is Valeant Pharmaceuticals Intl Inc.'s 34% Decline an Opportunity to Buy?

### Description

**Valeant Pharmaceuticals Intl Inc.** (TSX:VRX)(NYSE:VRX) is a favourite for growth investors. In the past five years, it has experienced double-digit earnings growth of at least 30% every year.

Yet Valeant's share price fell 16% on Monday. When looking at a longer time frame, in a matter of two months it fell 34%. Is the decline an opportunity to get in or should shareholders bail out?

### The business

Valeant is a global specialty pharmaceutical company that develops and markets prescription and non-prescription pharmaceutical products. The business focuses on dermatology, eye health, and other niche therapeutic areas that target growth markets.

### Why the one-day 16% drop?

In the past few days, its share price has continued to fall. On Monday it fell more than 16%. The fall is largely because some politicians have been questioning Valeant's price hikes on some drugs. For example, one politician highlighted that two of Valeant's heart-drug prices were increased by over 200% and 500% the day Valeant acquired the rights to sell them.

The politicians aren't just targeting Valeant Pharmaceuticals, but other drug companies as well. It's just that Valeant was used as a concrete example of the drug-price hikes. So, other drug companies have experienced share price declines as well. **Allergan PLC** is an example. It fell by over 8% on Monday.

The negative headlines about drug companies is causing an industry-wide sell-off. Shareholders need to hang in there, and can take the opportunity to shop for attractively valued drug companies.

### Valuation

After the 34% decline and at about \$222 per share, Valeant is now priced around a price-to-earnings ratio of 16. This is a cheap multiple to pay for the kind of double-digit growth that Valeant is delivering to shareholders.

Just two months ago, Valeant's market cap was \$115 billion and today it's under \$76 billion. The means \$39 billion was vaporized in two short months. This is a prime example that the market can be driven by fear.

### **Profitability**

For the last decade, Valeant achieved high gross margins that oscillated between 65 and 73%. For the last year, it has stayed at the high end of the spectrum. Further, in the same period, it generated U\$5.5 free cash flow per share. So, the company is highly profitable.

### **Debt**

What may be of concern to investors is its debt levels. The higher the debt levels, the higher chance a company can go bankrupt. Valeant's debt-to-cap is 80%. Also, in the latest quarter its debt-to-equity ratio increased by 64% compared with 2014.

### **In conclusion**

Current shareholders should not sell in panic. In the short term, the market can act emotionally with no rationality. If anything, shareholders should re-evaluate their position to determine if they want to buy more shares at a more attractive valuation, or they could choose to add other drug companies that are also caught up in this sell-off.

Investors thinking of starting a position in Valeant Pharmaceuticals should evaluate the company because it is much more attractively valued than it was two months ago.

### **CATEGORY**

1. Investing

### **TICKERS GLOBAL**

1. NYSE:BHC (Bausch Health Companies Inc.)
2. TSX:BHC (Bausch Health Companies Inc.)

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