Sell and Avoid Valeant Pharmaceuticals Intl Inc.

Description

For investors of **Valeant Pharmaceuticals Intl Inc.** (TSX:VRX)(NYSE:VRX) or those who see that the price has dropped and are salivating over the notion that it's a discount stock, I would seriously advise that you either sell your shares or, if you don't own any, avoid this stock like the plague.

What's incredible is that a year ago, I would have advised investors to buy this company. It was experiencing tremendous growth, it was acquiring companies and integrating them, and if its CEO had his way, it would have become one of the top pharmaceutical companies in the world.

Unfortunately, nothing has gone well for the company since Andrew Left of Citron Research released his report that talked about how Valeant had been hiking drug prices and was using Philidor, a specialty pharmacy, to inflate revenue. This connection to Philidor could imply that Valeant was part of illegal activities, which would be disastrous for the company. Valeant is currently under investigation by the SEC.

But even if we take Left and the SEC out of the equation, there are two other factors that weigh heavily on this stock.

The first has to do with its weaker-than-expected results. In the fourth quarter, analysts had expected the company to have earnings per share of US$2.61; however, the company only delivered US$2.50. Every company is allowed to have a bad quarter, but for Valeant, the weak results appear to be the start of the norm.

Valeant revised its guidance downwards, expecting revenue to be between US$11 billion and US$11.2 billion. Previously, the company had been pushing towards US$12.5-12.7 billion. A US$1.5 billion drop in revenue is huge. This is going to seriously weigh the company down from an EPS perspective; it had been expecting to earn anywhere from US$13.25 to US$13.75, but now only expects to earn US$9.50-10.50.

But the other reason this stock should be avoided (as if the above were not enough) is because of who its investors are. The company is often referred to as a "hedge fund hotel." There is over 20% of Valeant shares owned by the Sequoia Fund and Pershing Square. In total, 47.9% of the company's stock is held by hedge funds.

Pershing, in particular, is in a unique position because Bill Ackman, the manager of the fund, made large option trades in November. He sold over nine million put options that expire in early 2017. Due to where the price of Valeant is presently, those puts have cost Ackman more than US$200 million.

At some point, Ackman is going to be put in a position to sell stock to cover these losses. One of the stocks Ackman could wind up selling is Valeant. That would scare other funds, which might then sell, forcing Ackman to sell even more. This might result in investors ditching the fund, which would require managers to sell even more. The actions of a few hedge fund managers could send this stock plummeting faster than an airplane in a nose dive.

So here's the thing: be smarter than hedge fund managers. Get out of Valeant, take your losses, and avoid this stock. This has been a lesson to all of us that companies trying to buy their way to success, sometimes illegally, can cause everyone to lose money.

CATEGORY

1. Investing

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