



## Valeant Pharmaceuticals Intl Inc. Is a Buy if its Parts Sell

### Description

Last summer, investors of **Valeant Pharmaceuticals Intl Inc.** (TSX:VRX)(NYSE:VRX) were riding high. The stock had reached an all-time high, and the company was trying to buy out larger and larger competitors. Business was booming and some people thought it would continue to skyrocket.

Then allegations of hiking the price of drugs plus claims of fraud brought the stock tumbling down. In July 2015, it was over \$330 a share. Now it is a little over \$40. Naturally, when companies see such significant drops, some investors start to wonder whether it's valid or if the stock is a buy and investors are just overreacting.

Based on the current price, Valeant trades at only 3.1-3.5 times its forward earnings. That's beyond cheap. But its debt-to-cap ratio is 80%. Specifically, it's sitting on US\$30 billion in debt. Further, the company expects its revenue to be 12% lower than it initially planned from US\$12.5-12.7 billion down to US\$11-11.2 billion.

Naturally, there are some hedge fund managers who trumpet the company and say that avoiding this stock is a mistake. Of course they say that ... the price has plummeted, taking their earnings with it. Remember, Valeant used to be called a Hedge Fund Hotel. Every hedge fund had money in it because it couldn't stop rising in price.

But when there is fear, opportunity can present itself. And Valeant does have an opportunity to move from "avoid" to "buy" in my spreadsheet of stocks. It needs to start selling pieces of its business, so it can get its debt under control.

The former CEO hoped to make it one of the largest pharmaceutical companies in the world; however, he wanted to do it as fast as possible. That strategy has failed and Valeant needs to divest its interests in some of its businesses.

Fortunately, it appears that the company is considering this. Yesterday, *Reuters* broke news that Valeant had brought in investment banks to help it review all of the options for selling pieces of its businesses.

Some of the products that have gained interest include Xifaxin, which is the prime product that was acquired in the Salix Pharmaceuticals deal. The others are Obagi and Solta, which are aesthetics products, and CeraVe, which is a skincare product.

Here's the thing ... companies use the media to try to gain goodwill. Until Valeant actually starts to sell some of its business and gets its debt under control, it's all talk. It's important for investors who don't have access to tens of millions in capital to be very careful to avoid being deceived.

Therefore, my recommendation is to move Valeant from your "avoid" column to your "research" column and wait for there to be definitive news that Valeant is selling some of its business. If the company can start to get its debt under control, it'll have a bright future. As the population ages, healthcare is going to become even more expensive, allowing companies like Valeant to generate profits.

The plan of action is simple. If it starts to sell pieces of its company and significantly hacks away at its debt, this stock could be a buy. Until then, I would watch it and wait. People can get rich buying stocks that are beaten down, but the trend for that company has to have changed. The trend hasn't changed at Valeant yet, but it can.

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1. Editor's Choice

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jaycodon

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