



Valeant Pharmaceuticals Intl Inc.: Should You Try to Catch This Falling Knife?

Description

Valeant Pharmaceuticals Intl Inc. (TSX:VRX)(NYSE:VRX) plunged November 8 as Q3 earnings missed estimates and the company reduced its 2016 full-year revenue and profit guidance.

Contrarian investors have been kicking the tires in recent months, thinking all the bad news was already priced into the stock.

Apparently, that isn't the case.

Earnings

Valeant reported Q3 2016 adjusted earnings per share (EPS) of US\$1.55, which was much lower than the US\$1.75 per share analysts had expected.

Revenue was pretty much in line with expectations at US\$2.48 billion, but the company painted a negative picture for the rest of this year and 2017.

The dermatology business is weak, and the company says any improvements it makes in its restructuring efforts in the near term are likely to be offset by increased competition for its portfolio of generic drugs as well as weakness connected to coming patent expirations in the neurology segment.

Full-year 2016 revenue is now targeted at US\$9.55-9.65 billion, which is down from the US\$9.9-10.1 billion previously forecast. Adjusted earnings for the year are expected to be just US\$5.30-5.50 per share rather than US\$6.60-7.00.

Ouch!

The dismal results led to a 25% drop in the stock price at the open, taking the share price below \$19. At the time of writing, Valeant recovered some ground, but still traded down 19% at \$20.70 per share.

Volatility

The stock's dramatic fall comes just a week after it rocketed 30% higher on news the company was

looking to sell off its Salix business for US\$10 billion to help pay down debt.

Traders are having a field day, but contrarian investors—who have been looking at the company's pipeline and buying on the belief that the stock was simply way oversold—just found out that cheap stocks often get a lot cheaper before they finally recover.

Not that long ago, when the stock first fell to \$30 per share, pundits were saying it had definitely bottomed and was a screaming buy.

Should you buy now?

Valeant's new management team is working hard to right the ship, but it is going to take time. This was confirmed in the Q3 report with CEO Joseph Papa warning 2017 was going to bring more pain.

At some point, this company should recover, and those who manage to pick it up at the bottom are likely to do well. For the moment, however, the risk of getting burned is still too great, and investors should probably look for other opportunities.

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