



Valeant Pharmaceuticals Intl Inc.: Has This Stock Finally Hit Bottom?

Description

Investors have been burned time and again over the past year trying to call a bottom in **Valeant Pharmaceuticals Intl Inc.** (TSX:VRX)(NYSE:VRX), which was briefly Canada's most valuable company in 2015.

Let's take a look at the current situation to see if the worst might finally be over for the troubled pharmaceutical firm.

Weak earnings

Valeant's latest nosedive came on November 8 on the back of rough Q3 2016 results.

The company generated US\$1.55 per share in adjusted earnings, which missed analyst expectations by a wide margin. The market was looking for US\$1.75 per share.

Revenue came in pretty much where the market thought it would at US\$2.48 billion, but was down 11% from Q3 last year due to lower product sales from existing businesses.

Reduced guidance

The numbers weren't great, but the 20% sell-off in the stock can be largely attributed to the negative outlook.

Valeant lowered its full-year 2016 revenue target from US\$9.9-10.1 billion to US\$9.55-9.65 billion. Adjusted earnings per share are expected to be US\$5.30-5.50 instead of the previous forecast of US\$6.60-7.00.

That's a nasty reduction, and investors are wondering how the company could have been so far off the mark.

Valeant says its dermatology business is weak, and the improvements it is making through the restructuring efforts are not going to overcome further weakness caused by growing competition in the

generic drug space and patent expirations in the neurology business.

So, things aren't going to finish well this year, and Valeant isn't overly optimistic about 2017.

Trump effect

A large part of the 20% rebound over the past week can be attributed to the U.S. election.

Why?

Hillary Clinton had the pharmaceutical industry in her sights over the past year as Americans fumed over unfair pricing policies by the drug makers.

Trump could decide to take up that fight, but the Clinton loss has the sector breathing a temporary sigh of relief.

Has the stock finally bottomed?

Valeant remains volatile, so investors have to be careful when trying to pick the low point.

Fans of the company say most of the bad news is out, and the company's pipeline is robust enough to justify as much as 100% upside from the current price.

Critics say the turnaround efforts are not going to save the company, and the debt load could eventually bury the business if asset sales are not successful.

Should you buy?

Contrarian investors might want to take a small position at the current level, but the name is still risky, so you have to be willing to ride out some further weakness before a recovery takes hold.

I would prefer to give up some potential upside and wait for confirmation the company is truly on the mend before buying.

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