



Valeant Pharmaceuticals Intl Inc.: Is This Stock Worth a Contrarian Shot for 2017?

Description

Valeant Pharmaceuticals Intl Inc. (TSX:VRX)(NYSE:VRX) is one of Canada's most hated stocks, and investors with an eye for potential turnaround stories are wondering if it might be time to start nibbling on the beleaguered drug maker.

Let's take a look at the current situation to see if Valeant should be on your radar for 2017.

Tough times

It's tough to believe that Valeant was briefly Canada's most valuable company last year.

At the end of July in 2015, Valeant hit \$335 per share and surpassed **Royal Bank** as the country's biggest firm by market capitalization, topping \$100 billion.

Fast forward a year and four months, and the stock is a former shell of itself, trading at just \$23 per share and sporting a market cap of \$8 billion.

The reasons for the bloodbath are widely known, and Valeant continues to struggle despite being under the control of new management.

Earnings for the third quarter came in worse than expected at US\$1.55 per share. Analysts were looking for US\$1.75 per share and had hoped most of the pain was already behind the company.

In the report, Valeant reduced its 2016 revenue guidance from US\$9.9-10.1 billion to US\$9.55-9.65 billion and cut its adjusted earnings projections from US\$6.60-7.00 per share to just US\$5.30-5.50.

The earnings miss and downbeat guidance sent investors running for the exits, driving the stock below \$20 per share.

Management blamed the rough quarter on a weakening dermatology business and ongoing competitive challenges. Looking ahead, Valeant said there isn't much to cheer about as increased competition in the generic drug segment and coming patent expirations in the neurology business are

expected to offset any improvements achieved through the turnaround efforts in the near term.

Trump to the rescue?

Bargain hunters have stepped in over the past three weeks, as a flood of money entered the broader drug sector in the wake of the U.S. election.

Whether or not Trump will be lenient on drug companies is yet to be seen, but the fact that Clinton isn't headed to the White House has taken some of the pressure off the industry.

Clinton is a strong critic of Valeant and its peers for their pricing strategies and was expected to make life difficult for the sector had she won the election.

Is Valeant a buy for 2017?

The stock remains under pressure, and management has pretty much said 2017 isn't going to be a great year.

As such, I wouldn't expect huge gains out of the gate, but some pundits are crunching the numbers on the company's product pipeline and saying there could be as much as 100% upside potential from the current price, especially if Valeant is able to unload some assets and bring down the debt load.

There isn't any rush to go out and buy the stock today, but contrarian types with some patience might want to consider a small position on any further weakness and simply tuck the shares away for the next five years.

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