



Valeant Pharmaceuticals Intl Inc.: Next Stop \$10?

Description

Valeant Pharmaceuticals Intl Inc. (TSX:VRX)(NYSE:VRX) continues to struggle, and investors are wondering where the stock might finally bottom out.

Let's take a look at the current situation to see if more pain could be on the way.

Downbeat results

Valeant wasn't expected to deliver a great Q3, but the company's results came in worse than analysts expected.

Adjusted earnings were US\$1.55 per share compared to the US\$1.75 per share the market anticipated. Slowing sales in the dermatology business were partly to blame, as was competitive pressure in the generic drug business.

Investors were not overly impressed with the results, but the negative guidance really upset the market.

Why?

Valeant said the fourth quarter was going to be challenging, and difficulties are expected to continue into 2017 as patent expirations could offset any improvements that arrive as a result of the ongoing restructuring efforts.

Debt load

Valeant finished Q3 with long-term debt of US\$30.4 billion. That's a lot for a company that only has a market capitalization of about US\$5.2 billion.

Management is determined to reduce the obligations, and assets sales are going to be a part of that process.

At the start of November, the stock surged on reports the company was close to a US\$10 billion deal to sell Salix, its stomach-drugs group. Four weeks later, the stock tanked again on news negotiations with

a Japanese buyer broke down.

The latest on the story is that Valeant plans to keep the division. Apparently, the buyer was looking for a fire-sale deal.

Valeant paid close to US\$11 billion for Salix last year, so the US\$10 billion price tag floating around the rumour mill was already a discount.

Should you buy?

Valeant remains a risky bet.

The company is caught up in legal battles, and the entire drug sector is under government scrutiny for its pricing policies.

Fans of the stock say the underlying business has great potential, and one report even suggests there could be 100% upside from the current price. At this point, however, further bad news or a broad-based pullback in equity markets could easily send the stock much lower.

In fact, a dip to \$10 wouldn't be a surprise.

If you have a contrarian investing style and a strong stomach for volatility, Valeant might be worth a shot on further weakness, but I would keep the position small.

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