



Valeant Pharmaceuticals Intl Inc. vs. Baytex Energy Corp.: Which Is a Better Bet?

Description

Contrarian investors are always searching for beaten-up stocks that could be on the cusp of a big rebound.

Let's take a look at **Valeant Pharmaceuticals Intl Inc.** (TSX:VRX)(NYSE:VRX) and **Baytex Energy Corp.** ([TSX:BTE](#))(NYSE:BTE) to see if one deserves to be in your portfolio today.

Valeant

It's hard to believe that Valeant was Canada's most valuable company by market cap for a brief moment last year.

Yup, Valeant traded for more than \$330 per share at the end of July 2015 and was worth more than **Royal Bank of Canada**.

Today, Royal Bank is at an all-time high and is worth \$136 billion. Valeant, on the other hand, is trading at \$18.50 per share and is worth less than \$6.5 billion.

Ouch!

Many investors have been badly burned trying to catch this falling knife, and there isn't much reason to believe the stock has bottomed.

The company is trying to turn things around, but ongoing legal issues persist, and Valeant has said 2017 is going to be a tough year as it battles through patent expirations and weak sales in its dermatology business.

The stock originally jumped on the result of the U.S. election; investors are hoping that a Trump administration will be less problematic for drug companies, but Trump recently said he thinks drug prices are too high, so more political pain might be on the way for the sector.

What's the upside?

Fans of the stock say the sell-off is overdone and that the underlying business is still attractive, especially if Valeant can find buyers willing to pay reasonable prices for some of its non-core assets.

This would help bring down the debt load, which sat at a massive US\$30.4 billion at the end of Q3 2016.

Baytex

Baytex is another fallen star in the Canadian market. The stock traded for \$48 per share before the oil crash. In January, it hit \$2 and has traded for less than \$8 for most of the year.

Management has done a good job of keeping the company alive through the downturn. The company raised capital when the market had a brief uptick in 2015, and terms have been renegotiated with lenders to give the company more breathing room as it adjusts to lower oil prices.

Net debt was still \$1.84 billion at the end of the third quarter, so more work has to be done, but the company is at least living within its cash flow while it waits for oil prices to rise.

The recent OPEC deal to reduce production is providing the sector with some optimism that a global supply glut could evaporate by the end of next year. If global producers actually honour their pact and oil supplies fall meaningfully, prices could drift higher in the coming months.

If that happens, Baytex has some strong upside potential, even after the big rally investors have enjoyed in the wake of the OPEC announcement.

Is one a better bet?

Both stocks are too risky for my taste, but contrarian investors who have a strong stomach for volatility might want to consider a bit of Baytex right now. The oil market appears to have bottomed out, and money is starting to flow back into the sector.

As for Valeant, I think there are too many unknowns today to risk buying the stock. It could very well double next year, but it could also hit \$10 before bottoming out.

CATEGORY

1. Energy Stocks
2. Investing

TICKERS GLOBAL

1. NYSE:BHC (Bausch Health Companies Inc.)
2. TSX:BHC (Bausch Health Companies Inc.)
3. TSX:BTE (Baytex Energy Corp.)

PARTNER-FEEDS

1. Msn

2. Yahoo CA

Category

- 1. Energy Stocks
- 2. Investing

Date

2025/09/20

Date Created

2016/12/16

Author

aswalker

default watermark

default watermark