



Valeant Pharmaceuticals Intl Inc.: Buy Now, Say Analysts

Description

Over the past two years, arguably one of the most volatile (and perhaps most infamous) stocks has to have been **Valeant Pharmaceuticals Intl Inc.** (TSX:VRX)(NYSE:VRX). The company has fallen out of grace due to a number of high-profile scandals; it's been probed by the U.S. government for its pricing of drugs and several business relationships that have been deemed conflicts of interest; and it has sold off a number of assets to ease its incredibly high debt burden.

This company has fallen from a high of over \$335 per share in 2015 to a 2016 low of \$17.42. At its current price level of just under \$19 per share, analysts are now asserting that now may be the time to buy. I'll take a look at what the analysts are saying; after all, a mean price target of \$24.24 represents a significant gain.

In this time of economic uncertainty and low inflation, a 30% increase on any given stock is worth talking about.

What the analysts say

Over the past month, the majority of analyst recommendations have remained at "hold" with 13 out of 21 analysts supporting this view. One analyst gave the stock a "sell" rating, three an "underperform" rating, another analyst gave this stock a "buy" rating, and three analysts recommend a "strong buy."

The company's consensus estimates for earnings in 2017 and 2018 have been significantly downgraded from a year ago; however, the current consensus estimates for earnings per share (EPS) in 2017 is 5.26, which gives the company a forward price-to-earnings (P/E) ratio of 2.68. For the pharmaceutical industry, this is a rock-bottom forward P/E estimate.

Valeant's fundamentals

The company's current price-to-book ratio (P/BV) sits at 1.13, meaning investors can now buy shares in Valeant approximately equal to the book value of the company's underlying assets. This fundamental metric is one of the first cautious long-term investors such as myself look at to see what kind of value opportunity might be present.

In general, value investors looking to buy pieces of companies at (or less than) the book value of the underlying assets of the company are, in essence, buying the company for its fundamental value without regard for the growth potential and profitability of the company moving forward. This sort of prudent investment strategy is one that has been made famous by Warren Buffett and other value investors who have long touted the practice of "buying 50-cent dollars."

Additionally, the company's projected annual growth rate over the next five years is expected to outperform the market (11.07% for Valeant vs. 8.4% for the market), meaning should Valeant's assets continue to provide reasonable earnings and revenue growth moving forward, Valeant should outperform the market on average.

Valeant poses significant downside risk due to its recent history of scandals and underperformance. Any investment in Valeant should be treated as somewhat speculative, but at current levels, it may make sense to take a stab.

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