



Valeant Pharmaceuticals Intl Inc.: A Stock at the Top of My List!

Description

Looking at the past year, journalists can thank **Valeant Pharmaceuticals Intl Inc.** (TSX:VRX)(NYSE:VRX) for offering an awful lot of writing material throughout the first half of the year. Every time a big story hits, everyone and their uncle seems to have an opinion, and the excitement dissipates little by little until the next big story hits.

In the case of Valeant, the timeline was in excess of one year until the presidential race turned into a bigger story.

Here we are at the end of 2016, and it seems shares of Valeant are again at the top of my list. The conundrum I'm facing is deciding which list to put it on. I have two separate lists — the first list is for stocks I want to buy, while the second is for stocks I want to sell.

As of the most recent complete fiscal year (2015), the company paid a total in excess of \$1.2 billion to cover the interest owed for the money borrowed. The total amount increased by more than 35% from the prior year. Looking at the first three quarters of fiscal 2016, the total interest expense is \$1.27 billion. The new annualized amount could reach \$1.7 billion for the current fiscal year! The leverage is now weighing the company down.

Like any one of us, this company has a paycheck (revenues), bills to pay (expenses), and the remainder is either saved or borrowed. In personal financial planning, we can either put money in the bank or borrow it from a line of credit if we've spent too much.

In the case of Valeant, the lines of credit are significantly drawn down, and assets are being put up for sale in order to cover the payments. Things are not going very well.

As is often said in investing, time is the friend of the good and the enemy of the bad. Looking at the past four months, the stock chart looks like a fine winter hill to slide down on a sled. It's just been that kind of ride for the shareholders.

Looking at the situation, the company has increasing interest costs, both in total dollars and now as a function of revenues, the percentages will be increasing. Looking at the debt ratio (total liabilities / total

assets), we see a startling trend.

In 2012, the ratio was 79% with an increase to 81.7% in 2013 and then 80% in 2014. The ending debt ratio for 2015 was close to 88%, and as of the third quarter of 2016, the number was a staggering 91%. Let's not forget, in the large majority of cases, the impairment of goodwill is done in the final quarter of the fiscal year. This ratio could increase further in the coming quarter.

Although shares of Valeant have fallen significantly in the past four months and have again and again broken any meaningful resistance level, I am still not a buyer. I think we know just what list this security tops.

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