



Why I'm Avoiding Valeant Pharmaceutical Intl Inc. Like the Plague

Description

Valeant Pharmaceutical Intl Inc. (TSX:VRX)(NYSE:VRX) recently sold \$2.1 billion worth of its non-core assets to raise money to pay back its massive mountain of debt. The stock started to rally following the news but has since dropped back to the \$17 range, flirting with 52-week lows. Valeant will need to continue to divest its assets, and this will force the company to give up a big chunk of its long-term growth. What will Valeant be left with after it's done its fire sale?

Valeant will become a no-growth name in the near future as the company continues selling its assets with the hopes of repairing its balance sheet. Valeant's debt load got as high as US\$30 billion during its peak, so \$2.1 billion isn't nearly enough to get the stock moving to higher levels.

Going forward, we can expect Valeant to continue divesting its assets at the same rate it was acquiring them two years prior under ex-CEO Michael Pearson. The management team expects to raise US\$5 billion from its divestitures over the next 18 months.

It's not a mystery that Valeant is in a bad spot right now. Valeant's potential buyers have all the bargaining power because everyone knows that the company needs to raise a large amount of money before its long-term debt becomes due. Time is the enemy of Valeant, and I believe the company may be forced to sell most of its non-core assets at a loss. Buying high and selling low is not a good strategy for unlocking value, so Valeant could see even more downside from here.

Valeant's growth outlook will be downgraded thanks to a lot of divestitures, so how else will the company raise money? How about raising drug prices — again?

The company recently announced 95 new price increases across 50 of its products. It's clear Valeant needs to do everything it can to raise money from its core businesses, but I don't believe the benefits from its drug-price hikes will last long. President Trump claimed that drug companies were "... getting away with murder," and that he will be looking to push for lower drug prices across America.

I believe President Trump will be quick to act with a new policy of requiring pharmaceutical companies to lower their drug prices. This will see Valeant revert its recent round of drug-price hikes and could potentially see more drug-price reductions across many of its other products. It's unclear as to the

magnitude of these drug-price reductions, but it's pretty much guaranteed that the new policy will limit Valeant's upside for many years down the road.

The company will most likely be on damage control for the next two years. The stock may seem cheap right now, but I don't see it moving higher until the massive debt is reduced to manageable levels.

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