



Valeant Pharmaceuticals Intl Inc.: Should You Take a Contrarian Shot?

Description

Valeant Pharmaceuticals Intl Inc. (TSX:VRX)(NYSE:VRX) is now trading at lows not seen in more than six years.

Let's take a look at the troubled Canadian drug company to see if the sell-off looks overdone.

Tough times

Valeant was briefly Canada's most valuable company in the summer of 2015 when the stock surged above \$300 per share, giving the company a market capitalization of more than \$110 billion.

Today, investors can pick the stock up for less than \$18, and the company's market cap is about \$6 billion.

The rapid decline is one of the worst investor wipeouts in the Canadian market, ranking up there with Nortel and **BlackBerry**.

New management has taken over to try to right the ship, but Valeant's numbers continue to head in the wrong direction, and the massive debt load remains a challenge.

Valeant finished Q3 2016 with US\$34 billion in debt. The company recently announced assets sales of US\$2.1 billion, so steps are being taken to improve the balance sheet, but more work has to be done.

Results in Q3 missed analyst expectations. Adjusted earnings for the quarter came in at US\$1.55 per share compared to the US\$1.75 per share the market wanted to see.

Management said the Q4 2016 numbers were not going to be much better, so investors are somewhat concerned about how things will look when those results are released.

On top of that, patent expirations in 2017 could offset any improvements achieved as a result of the ongoing restructuring efforts.

Trump effect

President Trump has decided to include the drug makers in his group of targeted industries. In a January 31 meeting with CEOs of leading drug makers, he indicated he wants to reduce red tape and help get new drugs approved, but also wants to see lower prices and a return of manufacturing to the United States.

So, investors have to keep this in mind when evaluating Valeant and its peers.

Should you buy?

Fans of the stock say Valeant's product pipeline and portfolio of top drugs are worth much more than the current valuation.

That might well be true, and if you have a contrarian investing style, a small position could be worth a shot.

At this point, however, there is simply too much political risk to call a bottom. I would at least wait for the Q4 numbers and 2017 guidance to come out before buying the stock.

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