



Don't Miss Out on This Bargain Stock Before it's Too Late

Description

Contrarian investors take note. **Valeant Pharmaceuticals Intl Inc.** (TSX:VRX)(NYSE:VRX), once a stock market darling, can now be had for just under \$20 per share. What is even more compelling is that the same analysts and investment bankers who were formerly in love with the company have now soured on it, despite that today the value of Valeant is just 1/20th of its former size.

What happened?

Valeant made a name for itself in the investing world by pursuing an extremely aggressive growth-by-acquisition strategy. Instead of taking on the expensive research and development required to discover the next big pharmaceutical drug, management at Valeant instead opted to acquire companies that already had established and successful pharmaceutical products in place.

The idea was that in doing so, the company would minimize the risk of overinvesting in a product that would never make its way to market. The catch was that in exchange for a better "success rate," the price tag associated with Valeant's acquisitions proved to be too steep.

Valeant spent over \$24 billion on these types of acquisitions between 2012 and 2015 and, in the process, added close to \$16 billion of debt to its balance sheet, leaving the company with a staggering 7.2 times the debt-to-equity ratio today. Now, with annual interest expenses approaching \$2 billion versus \$2.5 billion of operating cash flow, investors are wondering if Valeant will be around to see the end of the decade.

Where does this leave us?

Due to excessive debt balances, Valeant has been forced to abort the growth-by-acquisition strategy. In addition, the company is facing headwinds in its higher-margin branded drugs segment, which is anticipated to have an impact on the top line. Analysts are calling for another 9% drop off in sales this year following a 7% decline in 2016.

However, the investments made in years past are now producing generous cash and income streams. Valeant today offers a very enticing forward P/E multiple of just 2.3 times and price-to-cash flow ratio of

just two. Looking out to 2018, the expectation is for sales to level off at US\$9 billion.

Should you buy?

Despite the legendary fall of what was once an industry giant, the most interesting thing about Valeant today is the value of the company's cash flow, even after accounting for the fact that the company is going to need to use a portion of that cash flow to pay down some of its accumulated debt balances.

Valeant generated US\$785 million in free cash flow for the most recent quarter ended March 31, and over the past three years it has generated consistent free cash flow of about US\$1.8 billion.

Even if the company were to use half of its US\$1.8 billion free cash flow to reduce outstanding debt balances, this still leaves US\$900 million to be distributed to shareholders in the form of dividends or share repurchases.

After taking into account the view that Valeant's growth is now at a standstill, US\$900 million in free cash flow available to shareholders still implies investors should expect to make a healthy 19% return on their investment, compounded annually.

While it's true that Valeant does not currently pay a dividend to shareholders out of its free cash flow stream, the free cash flow metric does paint an accurate picture of just how much the business is worth today for someone taking an ownership position, including a larger pharmaceutical company considering Valeant as a potential takeover target.

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Date

2025/07/27
Date Created
2017/05/22
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