Valeant Pharmaceuticals Intl Inc.: When Is a Good Time to Invest?

Description

Shares of **Valeant Pharmaceuticals Intl Inc.** (TSX:VRX)(NYSE:VRX) have been on quite the journey over the past few years. It used to be one of the top investments for hedge funds before coming under fire for its pricing of drugs. Shares then tumbled, and there were calls that the company, which had tens of billions in debt on the books, would ultimately go bankrupt.

Nevertheless, shares of the company have been on a bit of a resurgence, increasing from close to $11 a share in April to over $19 a month later before settling down to the present-day price. Investors are clamouring to get back into a stock that once traded at over $300 a share.

So, when is a good time to invest?

A lot of that depends on Valeant's ability to manage its debt-reduction strategy coupled with its ability to organically grow its business. The way the company has been paying down debt is through the sale of assets, but every time it sells one of its divisions, it loses the cash flow, which makes it harder to pay down debt.

Nevertheless, debt reduction must be prioritized. In 2020, it has US$5.8 billion due and over US$10.5 billion due by 2022. And that's only a little over half the total debt that the company has on the books. The good news is that management has taken steps to fix this with refinances and asset sales.

The most recent one is the US$930 million sale of Valeant's iNova subsidiary. This brings the company within US$500 million of its goal to pay off US$5 billion of its debt by February 2018. This sale is a smart one because Valeant only paid a little over US$450 million for the subsidiary, so it about doubled its money. But at the time of purchase, iNova was generating US$175 million in revenue, so this is an example of a loss in cash flow for the business.

When it comes to investing in a company like Valeant, it's not easy to predict the right time to acquire shares. One thing to consider is that the only reason it achieved profitability last quarter is because of a one-time income tax gain. Therefore, if future quarters result in losses again, investors might punish the company.

Here's what I'll be looking for before I even consider putting money into Valeant.

First is whether or not Valeant continues to sell off non-core assets. While I hate seeing that cash flow lost from the balance sheet, the debt is going to become a serious problem in future years. Valeant is already paying more in interest because of its refinances, so the company will suffer if it doesn't get this under control.

And second, I expect to see stronger growth in its Bausch + Lomb and dermatological divisions. The latter in particular comes with the potential for high pricing; if the new drugs work, they could add quite a bit of cash to the books.

While it's not a bad idea to take a small position, I'm still not a buyer of Valeant. The company is making the right moves, but the markets might punish this company a couple more times if quarters don't resemble the last one.

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