



## Valeant Pharmaceuticals Intl Inc. vs. Jean Coutu Group PJC Inc.: Is the Drug Maker or Drug Retailer a Buy?

### Description

You go to the pharmacy to buy drugs, which are produced by a pharmaceutical company. A pharmacy chain that is well known here in Canada is **Jean Coutu Group PJC Inc.** (TSX:PJC.A). And regarding pharmaceutical companies, you have certainly heard of **Valeant Pharmaceuticals Intl Inc.** (TSX:VRX)(NYSE:VRX), a Canadian company that has been widely covered by the press in 2015 for scandals. Valeant is trying to get back on its feet.

Which company is a buy right now? Let's find out.

#### **Valeant Pharmaceuticals Intl Inc.**

Valeant operates as a pharmaceutical and medical device company worldwide. It operates in three segments: Bausch + Lomb/International, Branded Rx, and U.S. Diversified Products.

In 2015, the pharmaceutical company rose to the top of the large-cap market in Canada, notably by making major acquisitions. But in only 12 months, Valeant faced allegations about its accounting practices and its business model, found itself in the spotlight of American elected officials because of dramatic increases in medicine prices, and was the subject of an investigation by securities regulators in the United States.

In 2016, CEO Michael Pearson stepped down from Valeant, and two executives were arrested for fraud. Shares have dropped by more than 90% since then.

Joseph Papa, the CEO who replaced Pearson, has an extensive history in the pharmaceutical industry, which should help the company overcome its near-term issues. Valeant has a diversified portfolio with many products that face limited competitive risks, so it is not overly reliant on a single product or patent.

However, Valeant's aggressive acquisition strategy brings significant financial and operational risks. Its high financial leverage creates little financial flexibility and places the company at risk of filing for bankruptcy.

On June 8, 2017, Valeant announced it would sell its iNova Pharmaceuticals business for \$930 million, as CEO Joseph Papa is making efforts to reduce the enormous debt pile. Those efforts for reducing debt leave little room for investing in assets and expanding the pipeline.

Valeant stock is currently undervalued. Its one-year forward P/E is 4.38, and its forward PEG is 0.52, so you're paying a low price for a potential high growth. Valeant doesn't pay any dividend, so the return you get comes from stock price appreciation.

### **Jean Coutu Group PJC Inc.**

Jean Coutu operates a network of franchised stores under the banners PJC Jean Coutu, PJC Clinique, PJC Jean Coutu Santé, and PJC Jean Coutu Santé Beauté.

Jean Coutu has a return on equity of 17.12% and a net margin of 6.70%, which is good. However, while revenue grew by 11.72% last quarter, EPS declined by 3.70%. Moreover, the stock isn't cheap with a forward P/E of 20.7. The very high forward PEG of 9.61 means that you pay too much for very little growth.

The last quarterly dividend paid by Jean Coutu was \$0.13 per share — a rise of 8.33% from the previous dividend, which was \$0.12 per share. Jean Coutu has increased its dividend by about \$0.01 per share once a year during the last three years.

Jean Coutu stock is a less-risky investment than Valeant. It's stable and grows slowly, while paying a good dividend. Valeant, however, is a more volatile stock. It's a riskier investment since the company is still recovering from past scandals, and its future is uncertain.

At the moment, I would say that neither Jean Coutu nor Valeant is a buy. However, I think you should keep them if you own some shares in your portfolio, since Jean Coutu is a relatively safe investment, and Valeant is trying to recover from its past difficulties.

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