



## What's the Next Stop for Valeant Pharmaceuticals Intl Inc.?

### Description

Last week, shares of **Valeant Pharmaceuticals Intl Inc.** (TSX:VRX)(NYSE:VRX) increased in value by close to 25% while remaining in bearish territory. The company has had numerous challenges over the past two years, so investors need to remain cautious with this name.

Trading at a price near \$21 per share, investors who went “bottom fishing” have done very well given the 52-week low is no more than \$11.20 per share. The challenge faced by investors moving forward will be how to manage the income statement and balance sheet in a way that delivers value to investors. Arguably, at the current price, many would feel more comfortable either on the short side of the equation or out of name completely. Given the history of the company, it may be difficult for many investors to enter a new position at current levels.

Over the past few weeks, the good news has been that famed investor and major shareholder John Paulson joined the board of directors in addition to the announcement that Valeant will sell the iNova Pharmaceuticals business for approximately \$930 million in cash. Clearly, company management has been true to its commitment of reducing debt and making the company more solvent for the long term.

Given that interest expense for fiscal 2016 was \$1.8 billion based on total debt of almost \$30 billion, paying down even \$1 billion of debt will not lead to a profound change in the interest expense paid by the company. What will decrease, however, will be the revenues, which have already been on a downward trajectory since crossing over the \$10 billion mark in fiscal 2015.

If we look at the technical indicators of the company, we can see that the ride down has taken a very long time. Given the long-term nature of these events, investors considering the 50-day and 200-day simple moving averages (SMAs) may still want to stay clear of this investment. Although there have finally been a number of good things transpiring at Valeant, the stock price has remained at or under the 200-day SMA. Clearly, there is still hesitation to cross this point of resistance.

Although the first step will for the share price to cross over the 200-day SMA, the true test will be if shares can stay above the SMA long enough for the 50-day SMA to be able to cross the 200-day SMA. Although technical indicators are not a reason for making an investment, there is sometimes very

valuable information that can be derived from them. In this case, what investors can take away is that in spite of the good news, there is still hesitation for a substantial upward price movement.

Always looking for value, investors need to remain cautious with this investment, as the overhang of the debt and interest expenses have not been resolved. The next stop for the share price will most likely be much less than \$20 per share.

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1. Editor's Choice

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## **Date**

2025/07/30

## **Date Created**

2017/06/27

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