This Stock Has Nearly Doubled Since April: How Much Higher Can it Climb?

Description

Investors looking for one of those feel-good stories where they also make a boatload of cash would have found such a situation in purchasing shares of **Valeant Pharmaceuticals Intl Inc.** (TSX:VRX)(NYSE:VRX) in late April, when the company hit a low of $11.20 per share. Since then, shares have been on a steady climb upward, nearly doubling of late, closing at $22 at close of business Monday.

On Monday, the Canada-based pharmaceuticals company announced yet another asset sale; it's divesting its Obagi Medical Products business for US$190 million. Management has promised to reduce the company's burdensome debt load by $5 billion by early 2018 — a debt load which once stood at close to $30 billion.

I have spoken at length about the importance (and significant value) of a competent management team with the ability to execute a strategic long-term plan to investors; in that regard, Valeant has come through 10-fold in terms of execution. In the world of investing, it is one thing for a plan to be put forward publicly, but it is entirely another for investors to get what they expect. In this case, it appears the market may finally be taking the assertions of management at face value, as the market capitalization of Valeant continues to climb higher, reflecting this positive sentiment.

The all-cash deal of the skin-care/dermatology products subsidiary, which is set to close during the latter half of 2017, is expected to be used to pay down debt in its entirety. The current debt overhang and onerous interest payments the company is making have hampered Valeant's long-term growth prospects; each divestiture the company makes seems to provide a jolt to investors, reminding them of the increased long-term profitability prospects of Valeant's remaining base of drugs (and pipeline of new drugs) absent massive amounts of debt.

When taken in context of how much debt Valeant has, $5 billion may not seem like much; however, two important things investors should note from this de-leveraging process are: (1) the debt Valeant is paying down is going to be the debt with the shortest maturities and the highest yields, reducing overall interest payments by a much more significant margin than the overall percentage reduction in debt would imply; and (2) the most recent de-levering efforts of management increases its ability to raise equity at a higher stock price down the road to fully rebalance the books, as the company regains investor confidence in doing what it says it is going to do.

Bottom line

I have stated in previous articles that I believe a $25 price target for Valeant is reasonable, and I stand by that assessment more so today than before. With a strong management team willing to do whatever it takes, Valeant has all the tools necessary to hit my price target and travel much higher over the long run.

Stay Foolish, my friends.

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