Could Valeant Pharmaceutical Intl Inc. Hit $30?

Description

Valeant Pharmaceutical Intl Inc. (TSX:VRX)(NYSE:VRX) is looking like a suitable long-term investment again thanks to the new CEO Joseph Papa, who has been steadily cutting down the debt and cleaning up the mess that ex-CEO Michael Pearson made during the reckless acquisition spree which ultimately resulted in the company's catastrophic downfall.

Joseph Papa is making all the right moves

Valeant is taking on a new strategy with the hopes that the company can be a legitimate player in the pharmaceutical space once its debt is reduced to a sustainable level. Valeant's financial health quickly deteriorated under Mr. Pearson, as debt got as high as $30 billion. Mr. Papa was faced with the tough task of reducing the debt load before the maturity dates. The good news was that there was quite a bit of time, as most of the maturities were not due until 2019, but still, that's quite a bit of pressure to make so many divestitures!

Instead of selling non-core assets at a huge discount to their value, Mr. Papa took a smart medium-term approach to making assets sales to get the most bang for each asset sale. Mr. Papa's original goal was to pay back $5 billion worth of debt over an 18-month span, and it appears that the company is on track to reach this goal following a series of numerous non-core asset sales.

Revenue growth initiatives while in debt-reduction mode

As you'd expect with such a huge divestiture plan, revenues would take a hit. The management team is making moves to grow revenues across various segments, while it continues with its debt-reduction plan.

Many pundits believe that the Bausch and Lomb eye care business will continue to experience stable growth going forward, while Valeant continues with its debt-repayment plan. Valeant also has a promising psoriasis drug in Siliq, which is slated for launch later this year as the company looks to capture a large chunk of the $13.3 billion psoriasis market.

The revenue-growth initiatives sound promising, but don't expect them to offset the declines coming from non-core asset sales. Going forward, Valeant will still be in divestiture mode as the company approaches the end of its 18-month debt-reduction period earlier next year.

Bottom line

Valeant is still in divestiture mode, but I find it quite promising that the company is still pushing for growth across its core businesses. Mr. Papa has done a good job so far, and over the next few years, I believe he can continue to excel as Valeant becomes a legitimate, investable business again. A $30 price target may not seem as far-fetched as some might believe, especially since the company’s financial health continues to improve with time.

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