



Which Should You Buy: Valeant Pharmaceuticals Intl Inc. or Home Capital Group Inc.?

Description

Stocks that have seen prices decline as a result of scandals and problems present buying opportunities for investors that are not risk averse. The danger in investing in a company that is in turmoil is that the stock could continue to plummet with no end in sight. The easiest example is **Sears Canada Inc.**, which is now in the process of liquidation; months ago, it might have been seen as a bargain opportunity if it could turn things around.

But *if* is a dangerous word, and just because a stock has declined is not a reason to invest. Instead, it is important, once you find these “bargain” stocks, to look at the company’s financials and assess its long-term prospects. If a company is heavy on debt, sales are declining, and there doesn’t look to be light at the end of the tunnel, it’s best to stay away from the free-falling stock. However, a company ridden by scandals or bad press but has good financials and a promising future might present a good long-term opportunity, as long as you can stomach the fluctuations in the process.

I’ll look at two companies’ stocks that have taken a beating and could present strong long-term upside.

Valeant Pharmaceuticals Intl Inc. (TSX:VRX)(NYSE:VRX) has seen its stock tumble 30% in the past year, and over five years, the stock has declined by over 58%. The company was trading at over \$319 a share in September 2015 when news came out about Valeant’s purchase of Addyi, the “female Viagra” pill. The problem with the purchase is, although it was FDA approved, the drug had serious health risks associated with it. Valeant purchased the maker of the high-risk drug for \$1 billion, and, as a result, the stock plummeted to \$100 a share and soon reached just \$34.

Big risks aren’t the only items that have concerned investors. The company is heavily leveraged in debt. At the end of 2015, the company had a debt-to-equity ratio of 5.26 with debt levels reaching over \$30 billion. The company was able to bring debt levels down to \$29 billion, but a dropping equity resulted in the ratio rising to 9.46 for the end of 2016.

Although the company has expressed a desire to continue paying down its debt, it may be a losing battle, as the company still expects to make large investments into research and development.

Home Capital Group Inc. ([TSX:HCG](#)) is a very different case of a company that has been ridden with bad press and scandals in the past several months. The mortgage lender has been involved in fraudulent mortgage applications, and the company's CEO was fired earlier this year amid accusations of misleading investors.

These types of scandals don't fade from memory easily, but **Berkshire Hathaway Inc.** came to the rescue. Berkshire has provided Home Capital with some life support. Home Capital is a bit heavy on debt as well, but with a debt-to-equity ratio of just 1.63 for the latest year, it pales in comparison to the problem Valeant has.

With the problems and individuals associated with fraudulent activities removed from the company, a better balance sheet, and reasonable prospects for a recovery, Home Capital presents a much more attractive opportunity for investors than Valeant.

CATEGORY

1. Investing

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1. NYSE:BHC (Bausch Health Companies Inc.)
2. TSX:BHC (Bausch Health Companies Inc.)
3. TSX:HCG (Home Capital Group)

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