Valeant Pharmaceutical Intl Inc. Is Back on the Growth Track: Time to Buy?

Description

Valeant Pharmaceutical Intl Inc. (TSX:VRX)(NYSE:VRX) took a 9.57% plunge on Wednesday following a rally over 10% in response to a solid earnings beat. Valeant reported an earnings per share of $1.05, which beat the analyst expectations of $0.94. The post-earnings rally appeared to be warranted, but the plunge which followed shortly after caught many by surprise as the earnings-induced rally gains were surrendered.

A solid second quarter to be optimistic about

Valeant clocked in Q2 revenues of $2.23 billion — down 7.7% from $2.42 billion recorded during the same quarter last year. The management team, led by CEO Joseph Papa, has been busy divesting non-core assets to raise cash to pay back the massive amount of debt, so year-over-year revenue declines were nothing out of the ordinary.

Phase one: Divesting non-core assets. Phase two: Growth

More recently, the management team stated that it's going to take a break from divesting assets to focus on boosting cash flow from its businesses to finance debt repayment. Mr. Papa stated that Valeant has "…accomplished what we felt needed to be accomplished, certainly in the near term … Our focus is going to be on the execution of the business."

Valeant is reportedly ahead of schedule with its goal of reducing $5 billion in debt by February 2018. This first phase of Mr. Papa's turnaround plan in divesting non-core assets appears to have bought the company a considerable amount of time as ~$26-27 billion of the remaining debt is not due until the start of 2020.

What the payback schedule looks like

Looking at Valeant's debt maturity schedule, $5.73 billion is due in 2020, $3.52 billion is due in 2021, $6.99 billion is due in 2022, $5.96 billion is due in 2023, and $5.26 billion is due in 2024 and beyond. Although it appears that the pressure is off for now, things could get ugly once 2020 comes around if Valeant's business isn't firing on all cylinders.

There's still a steep mountain to climb, and more divestitures may happen as we get closer to 2020, but for now, Mr. Papa wants to run Valeant like a legitimate pharmaceutical business that's focused on growth.

Valeant has many promising drugs coming out of the pipeline that could be huge cash cows over the next few years. As the management team shifts its focus to cash flow generation, I believe the company will become more appealing to many investors compared to when it was in its divestiture phase, and this could send shares of VRX flying.

Bottom line

Valeant isn't even close to being out of the woods yet, but the shift to organic growth makes the stock more attractive to contrarian investors looking for a turnaround. There's still ~$27 billion in debt and mandatory amortization expenses that need to be paid, and if Valeant's segments don't start picking up fast, next thing you know, 2020 will be around the corner and the next phase may be divestiture mode … again.

Also, if the drugs coming out of Valeant's pipeline are unsuccessful or show to be less promising than originally anticipated, shares of VRX may fall off a cliff. There's really no way to know for sure if a drug will be successful, and that's the risk that contrarians will need to take if they want a shot at gigantic returns from Valeant's potential turnaround.

I think Valeant is a great turnaround candidate for those who are willing to take some risks. Shares of VRX are not for the faint of heart as they are expected to continue to be ridiculously volatile in the coming months as the company shifts gears. If you believe in Mr. Papa and the next phase of his plan, then now may be time to buy shares after the 9.57% plunge.

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