4 Reasons Valeant Pharmaceuticals Intl Inc. Might Be a Good Investment Today

Description

Valeant Pharmaceuticals Intl Inc. (TSX:VRX)(NYSE:VRX) has seen its stock go on a rough ride with a drop of over 58% in the past year. Year to date, the stock has declined by 15%. There is no shortage of bad news and pessimism around the company, but for opportunistic investors that are not afraid of risk, fear can create significant opportunities.

I will give you four reasons why the stock could be a very good buy today.

The company's bottom line has been showing improvements of late

Although Valeant didn't achieve any sales growth, it was able to improve its bottom line. In the previous year, the company posted $2.4 billion in sales for its second quarter, and it incurred a loss of $302 million, while this year saw a 7% year-over-year decline in revenue but a net loss of just $38 million. The company also posted a strong first quarter with profit of $628 million.

Debt levels have been coming down

The company has also made strides to bring down its debt levels. A year ago, the company had non-current liabilities of over $38 billion which have since dropped to $33 billion for an improvement of over 12%.

Cash flows are strong and improving

Since Valeant has a great deal of amortization, its cash flow is going to be better than its net income, which is evident by the company's positive cash flow from operations in each of its past five quarters. In the past 12 months, Valeant has seen its free cash flow total $1.9 billion, and if the company can continue that pace, it would show an improvement over last year's free cash of just under $1.8 billion.

The stock price may have found a bottom and could be on the way up

Outside of a few months from mid-March to early May, when the stock dropped below $15 a share, the share price has been able to see support at that price point. Although the past month has seen the stock price drop by over 21%, since early May, the share has been in a range of $16-22 with no sign of a significant trend in one direction or the other. The company's next earnings are not due until November, so unless some significant news comes out before then, I would expect a bit of stability from the share price until then.

The Relative Strength Index (RSI) indicator, which tracks average price gains and losses over a period of time, is currently at a level of 31 for the past 14 days, and a number of less than 30 indicates the stock has been oversold and could be due for a price reversal. The last time the stock reached under 30 was when it hit its 52-week low of $11.20, and at that time the RSI was just over 26.

Bottom line

Valeant isn't a stock for the risk-averse investors, but it could present a good opportunity, at least in the short term, to take advantage of a stock that has been on a steep decline. There are certainly no guarantees it can't go lower, but the evidence suggests the share price should be more stable going forward. The long-term growth of the share price will ultimately depend on the company's ability to build on the positive results from its first two quarters in 2017 and its ability to convince investors that it is getting its house in order.

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