



Valeant Pharmaceuticals Intl Inc.: Opportunity or Value Trap?

Description

Valeant Pharmaceuticals Intl Inc. (TSX:VRX)(NYSE:VRX) is a completely different company with CEO Joseph Papa at the helm. The over-leveraged greed-fest is over, and Mr. Papa and his team are ready to clean up the mess (debt load) that sent the company to the brink.

Well-respected activist investor Bill Ackman threw in the towel on Valeant because he claimed the investment required “a disproportionately large amount of time and resources.” That means bottom fishers and deep-value investors are going to need patience to see Papa’s moves work their way into the stock price.

Papa had a tough task ahead of him when he arrived at Valeant, but now that he’s shed some more light on his strategy, the task seems accomplishable, and shares may actually be ridiculously undervalued when you consider the assets that remain.

Valeant to sell Sprout Pharmaceuticals subsidiary

More recently, Valeant [disposed of its Sprout Pharmaceuticals business](#) along with its controversial female sexual dysfunction drug, Addyi, also known as “pink Viagra.”

Addyi has endured underwhelming sales since its October 2015 launch, so the deal wasn’t a huge surprise when you consider that Valeant is looking to spark organic growth in its more promising core businesses, which will be the key as the company looks to boost cash flow to be ready for long-term debt maturities, which will become due starting in 2020.

“Returning Sprout to its former owners will enable us to further streamline our portfolio and reduce complexity in our business,” said Papa.

As a part of the deal, Valeant is expected to provide US\$25 million in loans for initial operating expenses. Douglas Miehm, an analyst at RBC Capital Markets, stated that Valeant will need to “...write off a large part of the US\$836 million in intangible asset value plus contingent consideration associated with the drug.”

Bottom line

Valeant's promising drugs, Vyzulta, Siliq, and Relistor Oral, will be [under the spotlight](#) over the next year. Either one of these drugs could potentially become a blockbuster that could move Valeant further into the green. But as an investor, you're going to need to take a speculative bet knowing there's no real way to tell if these promising drugs will be hits or duds.

A great deal of volatility can be expected with Valeant, but if you've got a time horizon beyond five years, treat such dips as opportunities to buy more. I'm confident that Papa has the ship cruised in the right direction, as past divestitures have bought the company more time to focus on the core businesses that could return Valeant to being a legitimate contender with a repaired balance sheet.

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