Valeant Pharmaceuticals Intl Inc.: If You'd Bought the Dip, You're up

Description

Back on October 23, I'd suggested investors who could stomach volatility buy a small position in **Valeant Pharmaceuticals Intl Inc.** (TSX:VRX)(NYSE:VRX). Shares were trading at ~$15, and investors were questioning if shares would inevitably go lower.

And they did go lower, dipping another 4.5%. But as I always say, trying to time a bottom can be very difficult. So, even if you'd bought on the 23rd, and you're holding today, you're up 37%. And what should excite investors is that things continue to move in the right direction, making it possible for Valeant to continue experiencing similar growth.

In the beginning of November, Valeant released its third-quarter results, and they were, as expected, mixed. Revenue was down by 10% year over year to US$2.2 billion. This is because its Branded Rx and U.S. diversified products divisions were both down. However, Bausch + Lomb/International was up by 1% to US$1.254 billion — a good sign, in my book.

That drop in revenue was predictable. Valeant has been selling divisions left and right in an effort to pay down its debt. But by removing divisions, it loses products, which means it no longer can generate revenue on them.

What has been sending the shares up is that Valeant brought in US$1.3 billion in net income in the quarter compared to a loss of US$1.22 billion last year. This was thanks to a US$1.4 billion tax gain, but it was, nevertheless, a win for the company.

Soon after the quarter ended, Valeant announced that it would be returning the drug Addyi to its creators. This news is important, because it demonstrates the end of Valeant's old ways. Back in 2015, Valeant bought Addyi, marketed as the female Viagra, for nearly US$1 billion. It never got off the ground, though, and completely floundered. Returning it means Valeant can focus its energy on other, more important products.

But here's what really should have investors happy and excited:

The company expected to reduce its debt by US$5 billion by February 2018. As of the end of Q3, it has paid back US$6 billion, with a few months to go until its self-assigned deadline. And we can see the debt-payback strategy working; Valeant spent US$459 million in interest this quarter — down over 2% from last year.

However, what the company gained by selling those divisions and paying off its debt is time. The next major debt maturation is in 2020, when Valeant will owe US$5.8 billion. Another US$10.5 billion is due in 2022. But that’s five years from now. A lot can happen in five years.

My philosophy on Valeant hasn’t changed. It’s speculative. The company is carrying an incredible amount of debt that could really hurt the company in the coming years. However, now that the company is in a better position from a debt perspective, it can start to focus its energy on making new products.

One product the company really hopes will help is Siliq, a psoriasis drug. It is better than its competitors’ drugs and cheaper, but it comes with a black-box warning, which is the strictest possible warning. Should doctors see the benefits outweighing the risks, it could generate anywhere from US$250 to US$600 million a year in revenue.

Valeant will need that and a lot of other great products to ensure that the upcoming debt doesn’t destroy it. The risks are great, but small, speculative plays can sometimes be worth it. I say continue holding Valeant.

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