Queue the 2018 Rebound for Valeant Pharmaceuticals Intl Inc.

Description

Valeant Pharmaceuticals Intl Inc. (TSX:VRX)(NYSE:VRX) shares have soared ~52% over the past month, as the company shifts gears from divestitures and debt reduction to organic growth and boosting free cash flow. In many previous pieces, I've urged investors to buy Valeant, as it was one of the best long-term rebound candidates, not just on the TSX, but in the North American markets as a whole.

Could a name change reignite investor interest?

The greed-fueled acquisition spree has been over for years now, but to many investors, it's like the incident happened yesterday. Given the new management team's progress and a promising long-term turnaround plan, I think investors aren't giving the new Valeant the credit that they deserve.

You really can't blame the investors that have been avoiding Valeant. A tonne of wealth was destroyed over the course of a few months, and investors who stuck the course, like activist investor Bill Ackman, ended up losing a majority of their original investment.

Although the crash happened over two years ago, the stigma has stuck on Valeant, despite Joseph Papa's promising turnaround plan, which he's stayed on top of. I've mentioned countless times in the past that he was the right man for the job, and that the probability of a turnaround would be high with him at the helm.

It's probably the right time for the company to change its name to distance itself from the horrific events of the past under the Pearson era. This is a new company with a promising growth runway, and it's severely undervalued, even after the recent rally. The stock trades at a 5.61 price-to-earnings multiple and a 1.3 price-to-book multiple, well below industry average multiples.

Not only is there hope, but it appears a turnaround may be imminent

There's no question that Valeant was a sinking ship when Joseph Papa took over the helm. There was a boat load of debt, and the clock was ticking. The company was in divestiture mode initially, and there were many fears that assets would be liquidated at a lower price than what they were worth. Debt reduction and divestitures are not exciting for investors, so shares of Valeant remained in limbo for over a year after hitting rock bottom.

Fast forward to today, and Valeant has a lot more time to work with thanks to Papa’s disciplined approach to offloading non-core assets. Bausch + Lomb is a fantastic business that’s firing on all cylinders, and we’re finally starting to see solid quarters fueled by organic growth.

Now that the company is focusing on organic growth and less on divestitures, the company’s recent pipeline of drugs could boost cash flow that will cover a huge portion of the remaining debt that’s still weighing down the company’s balance sheet.

Bottom line

The old Valeant is long gone. The new Valeant is a terrific growth play with an absolutely fantastic management team, and it’s still trading at an absurd valuation when you consider the quality of the underlying assets. Sure, there’s a tonne of debt, but the financial health of the company is on the uptrend. The debt-to-equity ratio dropped from ~9.5 to ~4.9 over the past year, and as free cash flow generation accelerates, I expect this number will continue to drop until it hovers around the industry average.

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