After Reaching Another 52-Week High, Valeant Pharmaceuticals Intl Inc. Should Still Be Avoided at All Costs!

Description

Over the past few days, shares of **Valeant Pharmaceuticals Intl Inc.** (TSX:VRX)(NYSE:VRX) have hit a 52-week high in excess of $28.50, as the company has announced the original offering of US$1 billion in debt, which was then extended to US$1.5 billion. Essentially, debt holders are giving the company a vote of confidence until the maturity of the debt in 2025.

Although this move pushed out the debt maturity schedule for the company, the reality is that the interest rate now being paid to borrow money and maintain operations is an astonishing 9%! The negative aspect of this situation is that the company will be retiring debt with costs between 5% and 7%. Interest costs will continue to increase for two key reasons: the higher-risk profile of the company, and the overall increase in interest rates, which is moving through the general markets. After considering the numbers for the first three quarters of the 2017 fiscal year, I have both good and bad news for the company and investors.

The good news is that the interest expense through the first three quarters of the year has stabilized at US$1.392 billion for 2017 in comparison to US$1.367 billion for the 2016 fiscal year. The bad news is that the interest expense on a year-over-year basis has stabilized just as revenues have declined from US$7.271 billion to US$6.561 billion. The percentage of revenues that are being spent on the servicing of debt has increased from 18.8% to an astonishing 21.2% and is expected to increase even more over the next fiscal year. Over the next year, revenues are expected to decline amid lower revenues.

Although the company has successfully turned a profit in two of the past four quarters, investors need to look behind the curtain and consider what is really happening with the company's cash flow situation. Over the first three quarters of the year, the company has generated cash from operations (CFO) of US$1.712 billion in comparison to US$1.575 for the same period in fiscal 2016. The interest costs are now taking up more than 80% of CFO — a very dangerous game, indeed.

As is sometimes the case, a highly levered company that has faced the realities of bankruptcy can sometimes provide investors incredible returns, as the leverage employed becomes substantial, and expectations are easily surpassed. In the case of Valeant, many shareholders have come to their senses and sold off at a large loss throughout the year, while those currently holding the security have most probably bought at substantially lower prices, which makes the name one of the least-hated on the street — how times have changed!

With time working against it, investors may be wise to take what they can get, while the house is still standing.

Good luck with this name for 2018!

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