Why Valeant Pharmaceuticals Intl Inc. Surged Almost 10% Today

Description

With another very strong day for **Valeant Pharmaceuticals Intl Inc.** (TSX:VRX)(NYSE:VRX) shares, it is only natural for investors to wonder what's up.

I mean, with the stock surging almost 10% today and trading near 52-week highs, it is clearly being bid up by investors who are becoming more bullish on Valeant's business and future.

The stock has rallied 35% year to date in what is becoming a great rally for a stock so tarnished by its past.

Let's recall how we got here.

In early 2015, the company was on dangerous path that the market only saw as positive, with its stock flying high, hitting levels north of $350 and continuing to experience tremendous growth by acquisition.

The problem was, this was not a sustainable strategy, and while this aggressive acquisition strategy could not even be stopped by a debt-to-capital ratio of 70% and a debt-to-EBITDA ratio of over six times, one day it did stop.

Valeant's fall was dramatic, as its pricing practices came under question, an SEC investigation was initiated, and its heavy debt load threatened its survival.

By the end of 2015, the stock was pretty much worth half of what it was at its highs, and it subsequently continued to fall and settle at levels between $20 and $40.

Today, the shares are rallying off the company's announcement that it will be distributing Vyzulta, for the treatment of glaucoma, to U.S. wholesale pharmaceutical distributors.

The stock appears to be cheap, trading at almost eight times next year's consensus earnings, but remember, revenue and earnings have been declining. And the overhang on the stock remains.

The following reasons explain why I think investors should be very cautious about investing in Valeant.

There remains an overhang on the stock and the company in the form of an SEC investigation and investigations into pricing practices. We don't know what the outcome will be, and we don't know what penalties or fines will be imposed if the company is found to be guilty.

And while Valeant has been working on reducing debt, the company's debt level is still high at $26 billion for a debt-to-total capitalization ratio of a whopping 84%.

These factors increase the risk profile of the company and the shares enough to warrant taking a wait-and-see approach.

On the positive side, the company has beat expectations in the last two quarters, which is a good sign.

Also, the new CEO appears to be doing a good job in reducing the company's risk profile by investing in pharmaceuticals that have passed regulatory hurdles and that have smaller niche markets.

This strategy reduces approval risk and reduces the potential for competition from the big pharmaceutical companies, which tend to focus on bigger market drugs.

In closing, in my view, and despite the run-up Valeant has had recently, I see too many items on the risk side of the equation.

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