Valeant Pharmaceuticals Intl Inc Jumped 35% Last Month: Is the Stock Taking off?

Description

Valeant Pharmaceuticals Intl Inc (TSX:VRX)(NYSE:VRX) has had a great year on the TSX with year-to-date returns above 30%, and in the last month alone the share price has increased by 35%. The pharmaceutical company has been plagued with concerns about its debt and has seen sales decline in its latest quarter, but that hasn't stopped its ascent.

Debt restructuring has given the stock some momentum

Valeant recently announced an offering for senior notes payable in 2025, which would be used to pay down closer-term debt that is due in 2020. Although it pushes the timeline for the company's debt, it's only a short-term solution.

Ultimately, the company will still have to be more aggressive in its debt-reduction strategy. Valeant's plan to reduce its debt by $5 billion is ahead of schedule, but the company still needs to do a lot more. In its most recent quarter, the company's debt of nearly $27.8 billion was still more than five times its equity of $5.3 billion.

Being saddled with lots of debt can limit a company's flexibility. Although Valeant can give itself some breathing room with its recent restructuring, it doesn't solve the problem. If we continue to see interest rates rise, then the debt will become more burdensome and the company will be even more of a risk to investors.

Financial performance needs to be stronger

In the third quarter, Valeant failed to grow its top line and was only able to post a profit due to non-operating items that are non-recurring. Prior to Q3, three of the last four quarters were in the red and the company accumulated net losses of $1.1 billion in that period. Over the long-term, Valeant will need to produce stronger financial results if it wants to climb its way out of debt.

Valuation might be attractive to bargain hunters

The stock currently trades at less than 1.7 times its book value and at a multiple of 6.5 times its earnings. Its price-to-sales ratio is less than one, which means you're paying less for the stock than the company is generating in per-share sales.

However, it's not surprising that the stock is not getting more of a premium given its high debt and the lack of the growth the company has shown. It's a risky investment, as is evidenced by these multiples.

Should you buy Valeant?

For growth investors, there's not enough here to consider this a good investment. Although Valeant has had a good performance in 2017, that's largely because the company had a low starting point to begin with. But given that the stock has lost over 80% of its value in the past two years, this is small consolation for long-term investors.

The company presents a lot of risk, and once you combine falling sales with high debt levels, Valeant will hold little appeal for most investment profiles. Although the share price may be rising now, the growth won't necessarily continue, so investors would be wise to look for higher growth, lower risk investments on the TSX.

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