



## Could Valeant Pharmaceuticals Intl Inc. Be the Rebound Stock of the Year?

### Description

Last year, I mentioned that **Valeant Pharmaceuticals Intl Inc.** (TSX:VRX)(NYSE:VRX) was a [high-risk/high-reward](#) stock for those who had the patience to ride the rebound, which I felt was inevitable given the tremendous job that CEO Joseph Papa has done since taking the helm well over a year ago. Now that there's a foundation in place for organic growth and its debt is down to more manageable levels, I think Valeant is no longer an extremely risky, speculative play. Instead, I think it's a solid long-term investment whose risk profile is suitable given the potential rewards.

### How long will it take to repair Valeant's damaged reputation?

Despite Papa exceeding expectations with Valeant's turnaround plan, many investors still may not have forgiven Valeant for its price gouging and shady accounting practices exhibited during its downfall.

That's understandable, as Pearson's debt-fuelled, short-term M&A spree destroyed a ton of wealth, and sadly, original investors probably won't see a complete rebound over the course of the next decade. However, I still believe there's a great deal of upside that could be enjoyed by patient investors who are willing to focus on the road ahead.

Ultimately, it'll be the earnings that will dictate the movement of Valeant's shares. Given Papa's debt reduction and earnings growth efforts, I think shares could be poised for a pop, which would see investors begin to forget the old Valeant and instead consider the new Valeant as a solid long-term holding.

### Papa's performance thus far

Valeant has reduced its total debt by a whopping \$6.5 billion since the end of Q1 2016, much higher than the original ~\$5 billion repayment guidance. The larger-than-expected debt repayment was thanks to the divestment of 13 assets, most of which sold for above or around their fair value. In addition, the company eliminated all long-term debt maturities until 2020, which gave Valeant more than enough time to focus on organic growth initiatives rather than cutting deeper into the company's remaining assets.

Valeant's wonderful eye health business, Bausch + Lomb, is still around and it's firing on all cylinders. Going forward, it'll be a major earnings growth driver for Valeant as it picks up momentum from the newly launched FDA-approved Vyzulta, which could make a huge splash this year. Bausch + Lomb and Valeant's GI business account for a whopping ~77% of revenues as of Q3, so if Vyzulta ends up becoming a blockbuster drug, Valeant's shares will surely soar into the stratosphere as investors forget about Valeant's troubled past and look to its potentially brighter future.

### **A quick snapshot of what to expect in 2018**

Vyzulta and Siliq are too hot drugs that could cause Valeant's organic revenue to soar. When it comes to Bausch + Lomb, GI and Dermatology are all showing signs of promise in the new year.

Not all is peachy, however, as Valeant's diversified segment is showing weakness due to the number of generic drugs in its portfolio that are susceptible to various competitors. I don't believe this is anything to worry about, however, especially since the segment will become more insignificant versus Valeant's higher-flying businesses.

Currently, the diversified segment accounts for ~15% of revenues, but I suspect that will eventually drop into the single digits, especially considering the momentum enjoyed by Bausch + Lomb.

### **Bottom line**

As far as I'm concerned, its risk profile has decreased significantly during Papa's tenure. He's done an impeccable job of cutting down the debt without sabotaging core assets, which will fuel forward growth. Despite exceeding expectations in the debt reduction department, Valeant is still not out of the woods, especially if sales of Vyzulta and Siliq underwhelm in the coming year.

Despite impressive debt repayments, Valeant's 4.92 debt-to-equity ratio is still on the high side, but given the company's potential for organic revenue growth, I don't think investors should be as wary anymore.

At these levels, Valeant is certainly making a strong case for why it could be one of the biggest rebound stories of the year. However, it'll really depend on the performance of its new hit drugs, Vyzulta and Siliq. They've shown promise up till now, but betting on the success of new drugs always comes with a high degree of uncertainty. Given Valeant's [recent near-term surge](#), I'd recommend buying a very small position today, with the intention of accumulating a larger position on a dip.

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