This Pharmaceuticals Company Has a Wide Moat … With Alligators

Description

Investors considering which companies or sectors to invest in often look to sectors with the greatest possibilities for growth, or companies that provide significant value at depressed multiples when compared to competitors or historical long-term averages. I would argue that while both factors are important to consider when narrowing down investment opportunities, a third — and perhaps the most important — metric to consider is how large a company's durable competitive advantage is in relation to its sector.

Iconic investors such as Warren Buffett have long preached the value of a "moat" or a durable competitive advantage in deciding whether or not to invest in a company over the long term. After all, for any business of significant scale to continue to grow, relying on a long-term advantage is the only way to do so. Companies thoroughly insulated from competition have the ability to raise prices, grow market share, and maximize profitability over time — factors which make said companies highly sought after by long-term investors seeking capital appreciation.

One Canadian company that I have argued provides investors with excellent value as well as significant growth potential is **Valeant Pharmaceuticals Intl Inc.** (TSX:VRX)(NYSE:VRX). Perhaps what has not been discussed enough about this Canada-based pharmaceuticals giant is how wide the company's moat is, giving investors an added reason to invest in this company long term, despite debt concerns with the company's balance sheet.

The pharmaceutical industry is one which is inherently insulated from new entrants due primarily to the vast investment and expertise needed to gain any sort of foothold in a mature industry filled with companies with very deep pockets. While Valeant is certainly not the company it used to be, the reality remains that the pharma giant continues to hold a leading position in key niche pharmaceutical sectors; new drugs in Valeant's pipeline are set to potentially revitalize the growth discussion, which has fizzled out in favour of a debt-reduction and asset-divestiture focus of late.

Bottom line

Valeant CEO Joesph Papa has done an excellent job of steering the discussion away from divestitures and debt, toward long-term growth and opportunities within the pharmaceutical sector. Many of the divestitures made by Valeant during its more than $6-billion-debt-pay-down spree were non-core assets purchased during the company's asset-laced growth model, which proved to be ill-conceived.

As Valeant continues to move toward cash flow growth and profitability in the coming quarters, paying debt organically with increased cash flows, while bolstering the company's already impressive moat should provide continued forward momentum for Valeant's stock for the foreseeable future.

Besides Valeant, investors interested in long-term growth need to consider this company:

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