Valeant Pharmaceuticals Intl Inc. Q4 Earnings Review: Hold on Tight

Description

An investment in **Valeant Pharmaceuticals Intl Inc.** (TSX:VRX)(NYSE:VRX) is not for the faint of heart. The company's fall from grace has been well documented, and after losing as much as 95% of its market value, it has been highly volatile. Over the past six months, its share price has returned 33%, but year to date, the stock has unperformed, losing approximately 13% of its value.

Options buyers have had a big impact on the trajectory of the company's stock price, particularly around earnings. Over the past two years, Valeant's share price has fluctuated by approximately 20% on average the day after earnings are released. After it announced third-quarter results in November, the stock jumped 17.1% the next day.

What can investors expect after yesterday's fourth-quarter results? If history is any indication, look for the share price to see downward pressure. Options buyers have been placing their bets on a positive reaction to earnings. Unfortunately, despite a beat on earnings, the company posted another double-digit revenue loss amid increased competition for some of its major products. Its top brand Bausch + Lomb saw sales decline 3%, while Branded Rx lost 19% year over year (YOY). Non-GAAP earnings before interest, taxes, depreciation, and amortization (EBITDA) didn't fare any better dropping 16% YOY.

Investors can be looking at another double-digit decline immediately post earnings. Bulls will see this as a buying opportunity. Valeant has surpassed expectations and to date, it has successfully executed on its debt-reduction plan. The company generates significant cash flows, and it is well positioned to meet debt obligations over the next few years. As evidence of its success, the company announced plans to redeem the remaining balance of its $71 million unsecured notes due 2020 by March 30 of this year.

Although the company has been successful in paying down its significant debt load, at some point, investors will look for a return to growth. Bulls have pointed to the company's "Magnificent Seven" pipeline of products, but the company's revenues continue its downward trend. Unfortunately, the company has guided for another mid-single-digit decline in revenues for fiscal 2018.

Investors shouldn't fall into the price-to-earnings (P/E) valuation trap. A P/E ratio of approximately six may seem extremely cheap, but it can be very misleading. The company is still trading at 1.55 times book value, and its P/E-to-growth ratio (PEG) is negative. Likewise, its enterprise value to EBITDA of 9.63 also implies that the company is not currently undervalued. At this point, an investment in Valeant is mainly for investors with a high risk tolerance. Those with low risk tolerance should stay on the sidelines until the company can stem the tide of declining revenues.

CATEGORY

1. Investing

POST TAG

1. Editor's Choice

TICKERS GLOBAL

1. NYSE:BHC (Bausch Health Companies Inc.)
2. TSX:BHC (Bausch Health Companies Inc.)

PARTNER-FEEDS

1. Msn
2. Newscred
3. Sharewise
4. Yahoo CA

Category

1. Investing

Tags

1. Editor's Choice

Date
2025/06/30
Date Created
2018/02/28
Author
mlitalien