



Why Valeant Pharmaceuticals Intl Inc. Stock's 1-Year Return of 71% Could Be Just the Beginning

Description

Valeant Pharmaceuticals Intl Inc. (TSX:VRX)(NYSE:VRX) has had a good year.

And with the stock clocking in a one-year return of 71%, investors are asking themselves if this is the beginning of a comeback. Are the shares too [undervalued](#) to pass on them?

Let's review a little bit of the volatility that Valeant's stock has put investors through.

By the end of 2015, the stock was pretty much worth half of what it was at its highs of \$330, and it subsequently continued to fall and settle at levels between \$20 and \$40. This was due in part to the company's aggressive acquisition strategy that was financed largely with debt, but at that time, not even a debt-to-capitalization ratio of 70% and a debt-to-EBITDA ratio of over six times could stop it.

Until one day it did, and the stock came crashing down.

Learning from past mistakes, and as part of Valeant's strategy going forward, debt reduction has taken centre stage.

Last week, the company announced that it used free cash flow to redeem \$150 million of its outstanding 6.375% senior unsecured notes that were due in 2020. Long-term debt will fall to \$25.4 billion, and while this is clearly still high, it is a step in the right direction, nonetheless.

Fourth-quarter 2017 results were in line with expectations, and the prior two quarters came in above expectations, signaling that perhaps investor expectations have sunk too low.

This being said, an ongoing issue for Valeant is the loss of exclusivity (LOE) that many of its drugs have already been affected by and the LOE that many more of its drugs will face in 2018.

Revenue is still falling, as asset sales and LOE are negatively affecting the company's business, and while earnings are also falling, the stock trades at a price-to-earnings multiple of five times 2017 earnings and 6.9 times next year's expected earnings, so clearly, not much is baked in to the stock.

And if 2018 turns out to be the trough year for Valeant, as management is suggesting, and if 2019 is the year that we see major product launches, then the stock is setting up for a great run.

Continued sales force expansion and product launches in 2018 will serve to reduce margins for the year, but this is expected to pay off in 2019, and with the dermatology business expected to double its revenues within the next five years, the company certainly still has big growth ahead of it if it plays its cards right.

While the SEC investigation is still an overhang, and debt levels are still extremely high, the stock may be a good bet for investors who are looking for a higher-risk, higher-reward healthcare stock — an [industry that is benefiting from secular tailwinds](#).

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Author

karenjennifer

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