Is Valeant Pharmaceuticals Intl Inc. Still Worth Your Investment?

Description

Valeant Pharmaceuticals Intl Inc. (TSX:VRX)(NYSE:VRX) is one of the most promising turnaround stocks on the market. Valeant underwent what could only be described as an epic collapse several years ago that saw the stock price fall over 90% in just a few months.

Valeant's problems stemmed primarily from a failed business model that was overly reliant on cheap loans. Valeant used those loans to finance acquisitions, and then raised rates of those acquired drugs before moving on to the next acquisition and loan.

When a source of cheap loans finally dried up, Valeant was left with over US$30 billion in debt.

Over the course of the past two years, Valeant has revised its business model, replaced its management team, and formulated a plan to pay down its mammoth debt and return to a position of growth.

Valeant's recovery has drawn mixed feelings from investors, many of whom were burned during the collapse and now realize that even in the most optimistic of scenarios, Valeant is unlikely to return to its peak stock price set a few years ago.

Progress has been slow, but steady

Valeant's recovery is focused on two separate, but related areas. The first and most pressing is debt reduction. A US$30 billion mountain of debt is a difficult challenge, even for a company that doesn't have a broken business model.

Valeant has managed to steadily pay down that debt, but still has a ways to go. The company had initially set a target of US$5 billion by this past February, which Valeant handily beat by paying back US$6 billion. Additionally, last week Valeant completed a $150 million payment from free cash flow that was applied to its outstanding 6.375% senior unsecured notes.

One key thing to keep in mind is that company management clearly stated that the intent is not to get Valeant completely out of debt; rather, the objective is to get the debt down to a manageable level, which is in the region of US$10 to US$15 billion.

With those recent payments made, Valeant has no immediate debts coming due for the next two years, which leads to the other area of focus: growth.

Earlier this year, Valeant announced the significant seven – new and upcoming drugs that the company forecasts could provide billions in revenue. Whether or not that will pan out remains to be seen, but it is an encouraging sign that Valeant is devoting resources to growth.

What about results?

Valeant is set to provide a quarterly update on the first fiscal 2018 next week, and consensus among analysts is that the company will report earnings of US$0.66 per share. In Q4 2017, Valeant reported revenue of $2.163 billion with a GAAP cash flow from operations of $578 million.

In terms of the stock price, Valeant is trading lower year-to-date by over 10%, but this follows an incredible 12-month period that saw the stock surge over 80%. Ultimately, that surge still pales in comparison to the over 70% drop two years ago.

Is Valeant a good investment?

Valeant does pose some opportunity as a long-term investment, but that opportunity comes with a significant risk that may be prove to be too much for most investors.

Valeant's efforts to reduce debt and revamp its business are admirable, but investors should also note that with each asset sale used to pay down its debt, Valeant loses some of its recurring income from those assets.

Investors contemplating Valeant without an appetite for extreme risk would be better served investing in any number of stocks that could provide both growth and income prospects.

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dafxentiou