



Is Now the Time to Buy Bausch Health Companies (TSX:BHC)?

Description

After its well documented fall from grace, **Bausch Health Companies** ([TSX:BHC](#))([NYSE:BHC](#)), formerly Valient Pharmaceuticals, has [had a quietly productive year](#). Year to date, the company's share price has risen 23.8%, far outpacing the negative returns of the TSX Index. Over the past year, its share price has doubled. Now that it has re-branded itself and put its past behind, is it time to take a chance on Bausch?

Valuation

On the surface, Bausch Health is very cheap. It's trading at nine times forward 12-month earnings and at a P/E to growth (PEG) ratio of 0.80. The PEG ratio was widely used by famed value investor Peter Lynch. A ratio below one signifies that the company's share price is not keeping up with expected earnings growth. It can thus be considered undervalued.

Bausch has a price-to-book (P/B) of 3.39 and price-to-sales (P/S) of 1.33, and enterprise value (EV) to earnings before interest, taxes, depreciation and amortization (EBITDA) of 10.58, all of which are below industry averages.

What's holding the company back? Aside from lack investor confidence leftover from its Valient days, it's not in the best financial position.

Debt reduction

At the heart of the Bausch Health's current valuation is its high debt load. The company has \$25 billion in debt! To put that into perspective, this is double that of its current market cap of \$11.78 billion. If that isn't enough of a red flag, its debt-to-equity ratio which is one of the best debt indicators, is a whopping 705.11! Yes, you read that correctly.

The good news, is that the company is generating plenty of cash and is focused on reducing its leverage. In the first six months of the year, the company lowered its debt obligations by \$323 million. In the last quarter, the company extended its debt maturity dates and lowered interest rates on its credit facility. This will provide the company with greater operating flexibility. The net effect has been

an 8.7% reduction in interest expense from \$933 million to \$851 million.

The more cash it can free up, the more debt it can repay. In early September, the company announced further debt reduction, bringing third quarter debt re-payments to approximately \$240 million. I would expect these numbers to accelerate over the next couple of years.

Significant insider buying

The company has a long way to go and will remain undervalued until it can address its debt in a meaningful way. However, it does appear to be turning a corner. Management has made some significant purchases. On September 18, the following purchases were made on the open market: Richard De Schutter, Director: 125K shares; Joe Papa, Chairman & CEO: 30K shares; and Paul Herendeen, CFO: 10K shares

This is notable as they are the only notable insider trades over the past six month. It is clear that management has faith in the company and is investing in the company. This is a really good sign.

At this point, Valient is still a contrarian play and investors will need to be patient with its turnaround plan. Valient's debt-load is an albatross, but Bausch Health is [successfully positioning itself](#) to finally right the ship.

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Date

2025/09/11

Date Created

2018/10/18

Author

mlitalien

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