Opportunity Knocks: This Stock Is No Longer Toxic!

Description

In just under two weeks, **Bausch Health Companies** (TSX:BHC)(NYSE:BHC) is set to announce results for the third fiscal of 2018. Bausch is no stranger to controversy, and over the course of the past three years, the company (under its previous incarnations) became the darling of the market ballooning to an incredible market cap that surpassed some of Canada's Big Banks.

Of course, that rise was short-lived, and the company's questionable business model, which was fueled on cheap loans, came crashing down, leaving the company straddled with $30 billion in debt and investors fuming at a loss of 90% or more on the stock price.

Bausch has come a long way in the past few years and has arguably assembled a viable business model, a solid path to paying down its monstrous debt, and solid leadership in the C-Suite to navigate the company and investors to a brighter, if not profitable future. That change didn't occur overnight, but rather over the course of a longer period, so in assessing the future potential of Bausch, let's look at each of those main factors in isolation.

Bausch's debt is coming under control

Perhaps the most pressing concern for investors is the incredible amount of debt that Bausch was left with following its epic collapse, but the company has so far handled that challenge impressively, which can be traced back to three key points.

First, Bausch is paying down its debts and making great progress. Bausch has paid down over $5 billion in debt, including a $323 million reduction that came in earlier this month. This constitutes a sixth of all its debt, which was paid down within three years of nearly collapsing.

Adding to this is the fact that Bausch is also extending maturity dates and lowering interest rates on its credit facility. So far, this effort has yielded an 8.7% saving in interest costs, and those savings can be redirected towards paying down the more immediate debts.

Finally, there's the expected amount of debt that Bausch will be left with once switches focus off the aggressive debt reduction initiative we've seen in recent years. The current $25 billion debt the company still has is staggering, but the intent of Bausch's current initiative was not to become debt-free, but rather get it to a manageable point, which was stated in the past to be in the range of $10 billion to $15 billion.

Bausch's revamped business model and product line – showing promise

To help finance Bausch's incredible debt-reduction frenzy, the company opted to offload non-core assets. This was a duel-edged sword as the immediate capital boost from divesting one asset was offset by the loss of the potential income that asset would have generated.

Fortunately, Bausch had a number of new and promising products of its own, which have so far shown potential as long-term revenue growth options for the company. Additionally, a legal settlement over the IP rights Xifaxan will keep competitors from copying and bringing to market the popular IBS drug for the next decade. This will in turn allow Bausch to invest in other initiatives while maintaining its competitive advantage.

Other products such as the Lumify eye drops are also seeing strong growth. Lumify has so far closed in on a 20% share of the market, and the widely anticipated dermatology drug Altreno got FDA approval this summer and is beginning to show promise.

Final thoughts – should you buy?

If it weren't for Bausch's prior existence and epic collapse, the company would have all the hallmarks of a screaming opportunity. An improving balance sheet, a razor-like focus on cost-cutting and efficiency, and a line of successful products both on the market and ready to launch that will provide a growing source of revenue for nearly a decade.

Even with the increased volatility we've seen in the market over the past few weeks, Bausch is still showing an impressive gain of over 35% in the past six-month period and nearly 100% gain over the course of the past 12-months.

While Bausch is still a risky option owing to its debt, investors looking to bet on the long-term prospects of the company can still buy in at a discount.

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