TFSA Investors Need to Look at Bausch Health Companies Inc (TSX:BHC)

Description

Compounding returns over long periods of time is the key to a happy retirement. Your conditions are even better if you can withdraw those returns tax-free.

While the company has been engulfed in scandal in recent years, TFSA investors are getting a rare chance to buy what could be a multi-decade opportunity. All signs point to **Bausch Health Companies** (TSX:BHC)(NYSE:BHC) making a strong recovery in the years ahead.

The transformation is complete

You likely know Bausch Health by its old name: Valeant. After hitting an all-time high of $340 per share in 2015, the company was hit by drug-pricing allegations, debt concerns, and the well-documented Philidor crisis. Shares fell more than 90% to around $10.

While many analysts and investors were calling for bankruptcy, the company was able to right the ship quickly, replacing its management team and renaming the company Bausch Health.

While a name change alone can't erase its history, investors should take note of the many positives moving forward. While the market remains overly concerned with the company's past, there's a slew of value-creating tailwinds ready to take hold, from new products and ramping revenues to falling debt loads and stabilized pricing.

If you're a TFSA investor, this could be your chance at compounding attractive returns for years to come tax-free.

The fundamentals continue to strengthen

On January 7, Bausch Health stock popped 5% off management's strong guidance for 2019. The list of expectations is impressive:

- Sales are expected to rise from 2018 levels
- Cash flow from operations should surpass $1 billion
- Management anticipates paying down debt while still executing a few acquisitions
- Sales from its core seven products should double to $300 million
- Cost-cutting efforts should result in a $75 million annual reduction in expenses
- Four late-stage programs will be implemented

All of these tailwinds are expected to fuel a revenue growth rate of 4-6% over the next three years. EBITDA, meanwhile, is expected to rise by 5-8% over the same period.

Despite the noise, Bausch Health is doing everything right. It’s resolving legacy issues and right-sizing its balance sheet, while investing in its most profitable products.

The launch of new products coming out of clinical trials should produce even more growth opportunities over the next few years. Lucemyra, for example, is the first and only non-opioid medication that reduces withdrawal symptoms in adults who discontinue opioid use.

Research and development spending rose by 15% in 2018 and is expected to rise again in 2019, replenishing the company’s research pipeline beyond its current set of opportunities.

Now is the time to buy

Over the past 12 months, shares of Bausch Health are up around 25%, but they’re still a far cry away from their all-time highs. While returning to those levels may take decades, early returns may come quickly as the market decides to re-rate shares higher.

Today, Bausch Health trades at just 1.05 times sales and 2.81 times book value. **Gilead Sciences**, for comparison, trades at 3.77 times sales and 3.89 times book value.

The story for Bausch Health is a long one, but the valuation today is simply too low compared to its peers. Now is a great chance for TFSA investors to jump into what could be a decade-long compounder.

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