



## 1 Forgotten Canadian Stock That Could Make You Filthy Rich

### Description

Don't look now, but **Bausch Health Companies** ([TSX:BHC](#))([NYSE:BHC](#)) is back on the growth track after years of asset divestitures. CEO Joe Papa has been burning the midnight oil to turn the sinking ship that was Valeant Pharmaceuticals into a legitimate growth contender, and while the company is nowhere near out of the woods yet, I believe today's valuations are attractive when you weigh the potentially massive rewards relative to the amount of risk you'll take on.

There's still a lot of debt sitting on the balance sheet, and should worse come to worst, if none of the drugs in Bausch's pipeline become significant cash flow generators, we could easily see Bausch return to gutting its operations to meet the obligations as they come due. For now, however, there appears to be enough wiggle room to invest in core businesses, which will ultimately spark the magnitude of growth that'll act as the "[big clean up](#)" for what remains of the debt mess that ex-CEO Michael Pearson and the old management team at Valeant had created for Papa and the new management team.

As the remainder of the debt load is gradually chipped away at via operating cash flows rather than funds raised from divestitures, I think a significant upside correction could be in the cards at some point over the next three years should Papa continue firing on all cylinders.

In spite of Bausch's name change to distance itself from the old Valeant, there still appears to be a substantial discount on Bausch shares, not just because of the high financial leverage, but because many Canadians still have a bad taste in their mouths from the debacle that's still very much visible in Bausch's longer-term chart. Man, it was an ugly flop, and it's dwarfed any recent gains under Papa.

As new drugs in the pipeline gradually [propel the top line](#), I believe debt concerns, and the Bausch taboo will dampen further. Unfortunately for investors who value certainty, pharma plays like Bausch require a "leap of faith," as there's no way to know how a new drug will fair in future clinical trials or the OTC market.

Given the trajectory of Bausch and the exceptional steward you're getting with Joe Papa, however, I like Bausch as an investment more by the day, especially at today's valuations.

For Q4, Bausch clocked in 1% in organic growth with a better-than-expected 41% adjusted EBITDA

margin. The gastro and ophthalmology businesses were major drivers of Bausch's growth while the dermatology business continued to drag.

Moving forward, the gastro and ophthalmology segments will likely continue to post promising results, acting as a foundation, and as new drugs begin hitting the market, the chance of an upside surprise may be a lot higher than many analysts are led to believe.

## Foolish takeaway on Bausch

There's very little room for error, but I'm a believer in Joe Papa.

At today's levels, you can bet on Bausch's continued turnaround for a ridiculously low 6.2 times next year's expected earnings and one times sales. When you consider the potential and the large discount that's already baked into shares, I consider Bausch to be one of the best risk/reward trade-offs in the entire TSX.

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