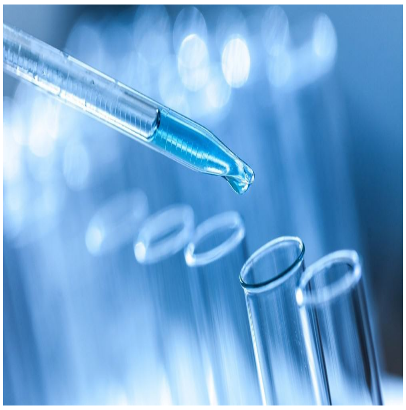

Can Bausch Health (TSX:BHC) Stock Double Your Money?

Description

The potential is there. The healthcare industry is a lucrative and steadily growing one, and it is one that is innovating at a faster pace than ever before. With a goal of saving and improving lives as the population ages, investors can feel good about investing in many of these stocks.

For **Bausch Health Companies** (TSX:BHC)(NYSE:BHC) stock, we could not always say that we felt good about owning it. Today, given the company's checkered history as Valeant Pharmaceuticals, it is understandable that many investors are hesitant to commit capital to this stock. It has a history of price gouging, unethical business practices, and financial decision making that was excessively risky at best and fraudulent at worse. All of it is difficult to overlook.

These days, however, new management at Bausch Health is committed to driving value the right way — through debt reduction, revenue growth, and margin growth through cost cutting.

Bausch Health: focusing on the future

With a focus on developing, manufacturing, and marketing "a range of pharmaceutical, medical device, and over-the-counter products, primarily in the therapeutic areas of eye health, gastroenterology, and dermatology," Bausch has a goldmine of products and competencies that have been overshadowed by its dark history.

Bausch Health has a fully integrated specialty pharmaceutical and branded generics business that will lead the company into a strong future, providing products to make patients' lives better.

Revenue growth has recently returned, and although it is small, this is a step in the right direction. Zeroing in on the company's Bausch and Lomb and Salix segments, which represent 80% of total revenue, we can see stronger revenue-growth trends. This portion of revenue increased 6%. Zeroing in even more on the company's top 10 products, we can see an even stronger revenue growth rate of 13%.

As a testament to how well the company is executing its transformation plan, we can look to guidance and expectations. The company's guidance has been raised two times since February of 2019. At this point, the company is calling for 2019 revenue of $8.4-$8.6 billion and adjusted EBITDA of between $3.425 billion and $3.575 billion. The mid-point revenue guidance is up 1.1%, and the mid-point EBITDA guidance is up more than 2%. Baby steps add up.

Debt load limits upside

Bausch still has an excessively high level of debt, with net debt of $23.2 billion at the end of the second quarter of 2019 for a debt-to-capital ratio of 90% and which represents a ratio of 6.7 times EBITDA. The stock could certainly double if everything works out well, but given the fact that cash flow is still not high enough to service the company's debt, we can see that the odds seems to be stacked against the stock in the shorter term, at least.

Moving in the right direction

While the company's debt load remains its biggest problem, things are improving, albeit slowly. The debt on the balance sheet is currently $23 billion, which is down from three years ago, when the company's debt levels were north of $30 billion. This is still dangerously high, but at least we are seeing progress is being made.

Foolish bottom line

In my view, Bausch Health stock does have big upside, but the risks inherent in the stock are still too high. Looking at both and balancing this, we get a risk/reward profile that is greatly stacked on the risk side.

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