



Why the Bausch Health (BHC) Stock Price Fell 6.6% in January

Description

It is an important exercise to periodically review the performance of our stock holdings as well as those stocks that are on our watch lists. This review should happen at least once a year, but also when big stock price movements are noticed.

The **S&P/TSX Composite Index** was up slightly in January (+1.5%) as the market continues to make new highs. **Bausch Health Companies Inc.** ([TSX:BHC](#))([NYSE:BHC](#)) stock price did not follow suit, however, declining 6.6% on valuation concerns and the realization that the company may not beat expectations to the same extent that it has in prior quarters.

Bausch Health stock and company expectations have been reset

After Bausch Health stock price massacre of 2015 and all the realizations that came to light; the company's history of price gauging, unethical business practices, and financial decision-making that was excessively risky at best, and fraudulent at worse, investors had little to no hope for the company and the stock. As a result, valuations were rock bottom cheap, with little to no expectations of anything good.

Fast forward to today and we have witnessed the benefits of new management at Bausch Health and its commitment to driving value the right way: debt reduction, revenue growth, and margin growth through cost cutting.

As the company has driven small but real improvements, Bausch Health expectations have been rising, and Bausch Health stock price has reacted accordingly, with a 100% three-year return.

Now that [expectations have been reset](#), valuations aren't so dirt cheap anymore, and investors are again focusing on some potential future problems.

Bausch Health stock price could suffer from excessive debt and future patent expirations

Bausch's debt load has lessened over the last few years, but it is by no means reasonable. [Bausch has an excessively high level of debt](#), with net debt of \$23 billion at the end of the third quarter of 2019, for a debt to capital ratio of 90% and 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 seem to be stacked against the stock.

With many upcoming patent expirations, the company has been working feverishly at launching new products. Many of the new products that have been launched are still in the early stages, so we're still waiting to see how they will ultimately ramp up and perform. Xifaxan, which is driving exceptional growth at the company's Salix segment, will see its patent expire in 2028.

Foolish final thoughts

The healthcare industry is a lucrative one that's growing steadily. It's also 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 healthcare stocks for the long term.

In closing, I would like to remind foolish investors of our belief in holding great businesses for the long-term. While this belief remains intact, we are also aware that sometimes, short-term stock price movements create opportunities to create wealth.

Blending this long-term focus with a keen eye for short-term stock mispricings, we can use both strategies in harmony, and our quest for financial freedom can be fulfilled.

CATEGORY

1. Investing

TICKERS GLOBAL

1. NYSE:BHC (Bausch Health Companies Inc.)
2. TSX:BHC (Bausch Health Companies Inc.)

PARTNER-FEEDS

1. Business Insider
2. Msn
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Author

karenjennifer

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