



Why the Bausch Health (BHC) Stock Price Fell 18.1% in February

Description

Bausch Health Companies Inc. ([TSX:BHC](#))([NYSE:BHC](#)) stock price declined significantly in February as markets sold off. With this, Bausch Health stock price is now back to trading at 2018 levels, erasing all of its recent gains. So why did the stock sell off so sharply in February — and what should we do about it?

While there are a few specific reasons for this fall, I will sum it up in one line. Fearful investor sentiment had investors running for safety in February. For reasons I will discuss here, Bausch Health is not the stock to turn to for that.

Bausch Health stock price falls on disappointing results and guidance

In February, Bausch Health reported 2019 results that were mixed. Results out of Salix were the clear highlight. Let's recall that Salix focuses on gastroenterology. The commitment is to "the prevention and treatment of gastrointestinal diseases and disorders."

In the fourth quarter, this segment saw revenue increase more than 20%. This increase was once again driven by Xifaxan, the company's top drug.

On the flip side, higher spending drove EBITDA margins lower and guidance was weak. The biggest issue for investors was the guidance, which calls for flat to marginal growth in 2020.

These disappointing numbers are certainly causing us to question management's long-term guidance. Management's target of 5% to 8% EBITDA growth between 2019 and 2022 appears less achievable now.

Bausch Health stock falls on coronavirus fears

For Bausch Health, [the coronavirus is having have two major impacts](#). The first is the impact on

revenue, which would result from a disruption in supply chains. This has been quantified to some extent by management. In their 2020 outlook, management expects revenue of \$8.65 to \$8.85 billion.

This includes a \$50 million hit due to the coronavirus. The revenue guidance represents an expected growth rate of between 0.6% and 2.9%. Clearly, this is unimpressive.

Although a setback, it follows a period of revenue declines in the not too distant past, so at least we still have growth.

The second impact of the coronavirus is on the debt markets. Given its substantial debt burden, Bausch Health is in the process of refinancing existing loans. Anything the company can do to reduce the burden is a positive. But as the coronavirus spreads, fears are mounting.

As a result, investors are flocking to safety. As we know, corporate bonds of highly levered companies are not safe. Bausch is having difficulty refinancing existing loans on more favourable terms in this environment.

Foolish final thoughts

Bausch is Canada's biggest healthcare stock and as such, it can't be ignored. As a result of its size and investment in research, Bausch has a goldmine of products and competencies. The company's [biggest concerns are its debt levels](#), competition from generic drugs, and future growth possibilities.

As I have discussed in this article, Bausch is facing a difficult period. Despite this, management remains of the view that much of the growth will come in the 2021/2022 period.

Regardless, investors are nervous. Stagnating growth and heavy debt loads make Bausch Health stock a risky one.

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, short-term stock price movements often create opportunities to create wealth.

We therefore need to blend this long-term focus with an eye for short-term stock mispricings. Only then can we use both strategies in harmony, and our quest for financial freedom can be fulfilled.

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