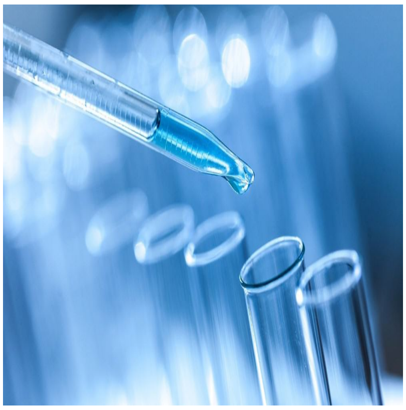

Why Bausch Health (TSX:BHC) Stock Is a Smart Risk to Take

Description

Bausch Health Companies (TSX:BHC)(NYSE:BHC) stock fell in early May after the company reduced its guidance due to coronavirus demand disruptions. Reduced guidance is not something that we like to see. However, I think we have to commend management for at least trying.

As per management's comments on the conference call, their outlook is based on a broad range of possible outcomes. In short, they have tried their best to provide investors with some direction in this unpredictable time.

Let's look at Bausch Health stock a little more closely. Is this stock worth the risk?

Bausch Health stock is supported by improved liquidity and balance sheet

Regrettably, Bausch Health has suffered a setback with its debt-reduction plan due to the coronavirus effect. Cash flow from operations was $369 million in the first quarter. Management expects it to come in at over $1 billion for the year. The company repaid $220 million of its debt in the quarter. The point here is that debt reductions are slowly but surely happening.

While this happens, a key consideration is whether the company has acceptable liquidity. And this it does. There are no mandatory amortizations payments or debt maturities until 2022. Bausch Health has a $1.225 billion undrawn revolving credit facility.

Bausch Health stock will be driven by its strong, defensive business

On the business side of things, Bausch has some strong drivers as well as challenges related to the coronavirus. All told, the coronavirus negatively impacted first-quarter revenues by 3%. This was primarily the result of three factors: The postponement of elective surgeries reduced Bausch Health's surgical business units; retail closures and lower contact usage negatively affected the international vision business; and medical closures in general led to lower prescriptions.

To be sure, the disruptions have escalated into the second quarter, so we can expect continued pressure on all of these things. But let's remember that these disruptions are temporary. The healthcare/pharmaceutical business is essential. Even elective surgeries are critical. And some of the company's drugs continue to see strong prescription growth. I think we can count on the return of demand in Bausch Health's businesses, although this will be a gradual return.

Baush Health operates globally. This diversification will mean that the outlooks in different countries will differ dramatically. The company continues to advance its pipeline and is even working on COVID-19 therapies.

As an example, Bausch has Virazole in clinical trials for the treatment of COVID-19. Canada and the U.S. have already approved this drug. It treats severe pneumonia and respiratory infections in infants and young children caused by the respiratory syncytial virus. Virazole's two key benefits are that it is inhaled directly into the lungs and that it limits viral replication. The drug has already been given to patients on a compassionate use basis.

Foolish bottom line

The bottom line on Bausch Health Sciences stock is that visibility and predictability are low. While Bausch Health's business is a defensive one, coronavirus disruptions are being felt. Couple that with the company's still excessive debt levels, and we can see that risk levels are elevated. This being said, there are definitely some redeeming qualities in Bausch Health. That means that Bausch Health stock warrant consideration for those investors that are open to a higher risk profile.

CATEGORY

1. Coronavirus
2. Investing

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