Is Warren Buffett Signaling a Bull Market in This Industry?

Description

Warren Buffett made a huge splash in the latest quarter after having picked up shares of a handful of U.S. pharmaceutical companies, including the likes of **Pfizer**, which has a 95% effective COVID-19 vaccine that could be ready to roll out in just weeks.

While Buffett's other U.S. pharma bets aren't a direct play on a COVID-19 vaccine, one can't help but notice that many of them are pretty darn cheap. Moreover, the entire pharmaceutical space could be poised to move higher on the backs of the COVID-19 recovery plays. This piece will look at one cheap Canadian pharmaceutical stock that I believe is in a spot to surge should the broader healthcare group be given lift in 2021 and beyond.

The best health play on the TSX?

When it comes to the **TSX Index**, there's not much selection when it comes to healthcare or pharmaceutical stocks. Given the quality of the assets behind **Bausch Health Companies** (TSX:BHC)(NYSE:BHC), though, I'd say the name is the only pharmaceutical play that a Canadian investor needs if they seek quality exposure into a compelling industry that Warren Buffett has been warming up to of late.

Karen Thomas, my colleague here at the Motley Fool Canada, thinks that Bausch is the top healthcare stock on the entire TSX: "While Bausch Health is not out of the woods yet, it certainly has gained a lot of ground. It's been four years since Bausch's transformation began. The plan was to first stabilize the company, then transform it. Today, the stabilization effort appears well underway if not mostly achieved." wrote Thomas.

The firm has moved on from its days as the infamous Valeant Pharmaceuticals and is on track to build upon its already impressive vision-care, gastro, and dermatology businesses. Led by CEO Joe Papa, Bausch has met numerous deleveraging targets over the years. The progress going on behind the scenes has been nothing short of remarkable. Yet the stock remains in the gutter, even after the latest bout bullish guidance and its most recent earnings beat.

Bausch Health recently reported decent third-quarter results that saw flat revenues and a nice earnings beat (EPS of $1.32 vs. the $1.05 consensus). It's worth noting that the beat was primarily driven by lower SG&A and R&D costs, which I don't believe are sustainable drivers of profits. Regardless, Bausch looks to be well positioned for a big recovery alongside the broader economy as coronavirus headwinds begin to fade.

Bausch is too cheap to ignore at $25 and change

While Bausch is up big (nearly 17%) since November 6 on the back of positive U.S. election and vaccine news, the stock remains a country mile (almost 40%) away from its pre-pandemic highs. With the pandemic's end now in sight, Bausch could be a 2020 dud that could be ready to make up for lost time.

The stock looks absurdly undervalued at this juncture at 0.9 times sales. Things are gradually showing signs of returning to pre-pandemic normalcy, and with its eye health spin-off of Bausch + Lomb (B+L) right around the corner, count me as unsurprised if Bausch shares continue to inch higher going into year's end.

Warren Buffett is clearly a fan of undervalued pharmaceutical companies. On this side of the border, you can follow the man with Bausch before its B+L unit spinoff, which could act as a huge value driver.

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