

Drug stocks recover in 2009 with generics leading the way



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The share price performance put on by the world's biggest drug makers was a mixed show this year; although the majority managed to notch up gains this should have been easily achievable amid a wider global stock market recovery, with last year's rout providing the bloody backdrop.

Still, as the analysis below shows only three of the big caps - Alcon, Teva and Bayer - managed to significantly outstrip their relevant indexes in 2009, leaving the likes of Pfizer and GlaxoSmithKline, which managed only meagre 3% gains, in their wake. In the mid-cap range generic drug makers were prevalent amongst the top climbers, whilst in terms of the biggest share price disappointments last year, the big biotechs of Gilead Sciences and Genzyme certainly put on a poor show.

Large cap (\$30bn+) pharma companies: top risers and fallers in 2009

Rank	Top 5 Risers	Share price (local currency)			Market capitalisation (\$bn)	
		31-Dec-08	31-Dec-09	% change	YE 2008	YE 2009
1	Alcon (\$)	89.19	164.35	84%	26.8	49.1
2	Bayer (€)	41.55	56.19	35%	42.8	68.9
3	Teva Pharmaceutical Industries (\$)	42.57	56.18	32%	34.8	51.8
4	Sanofi-Aventis (€)	45.40	55.06	21%	80.3	107.4
5	Merck & Co (\$)	30.40	36.54	20%	64.3	111.6
	Top Fallers					
1	Takeda (¥)	4,640	3,830	(17%)	38.6	33.5
2	Gilead Sciences (\$)	51.14	43.27	(15%)	46.6	38.9
3	Eli Lilly (\$)	39.74	35.71	(10%)	45.2	41.0
4	Amgen (\$)	57.75	56.57	(2%)	60.5	57.3

To put the gains and losses above into context, the following table lists the annual movement on some of the key global stock market indices.

Stock Market Index	% change in 2009
Pharma/Biotech	
Dow Jones Healthcare (US)	+19%
S&P Pharmaceuticals (US)	+14%
AMEX Pharmaceutical (US)	+13%
Dow Jones STOXX Healthcare (EU)	+14%
TOPIX Pharmaceutical Index (Japan)	-10%
NASDAQ Biotechnology (US)	+16%
Dow Jones US Biotechnology (US)	+5%
All Sector	
Dow Jones Industrial Average	+19%
FTSE100	+22%
DJ Stoxx 50	+25%
Bombay SE 200 (India)	+89%

Alcon's performance last year was largely down to speculation that Novartis would chose to take out the eye care speculation in entirety, an eventuality that now looks likely to come to pass, as announced earlier this week ([Novartis' vision now includes all of Alcon, January 4, 2010](#)).

As such, the company's performance cannot really be compared to those that were not buoyed by takeover speculation, essentially the remainder of the gainers amongst the big caps.

Investor appetite for Israel's Teva has shown little sign of abating this year; it was the first of the big caps to recover in the first quarter and has gone from strength to strength since. The stock closed at a record high of \$57.88 earlier this week, whether the generics giant can maintain this lofty valuation throughout 2010 remains to be seen.

Still, generics firms of all sizes were in favour last year; three of the top mid-cap gainers – Hospira, Mylan and Cipla – are also active in this area, and just outside the top five are the likes of Dr. Reddy's Laboratories, Ranbaxy Laboratories, Gedeon Richter, Watson Pharmaceuticals and Sun Pharmaceutical Industries. With pricing pressure on public and private healthcare budgets likely to remain high for the foreseeable future, the fundamentals of this sector of the drug industry are likely to remain attractive to both consolidators and investors this year.

Across the pond

The European contenders amongst the gainers, Sanofi-Aventis and Bayer, have maintained their momentum from the previous quarter ([Generic shares stay strong amid wider big cap recovery, October 1, 2009](#)). The impressive climb in the French company's value could well be to do with confidence in new chief executive Chris Viehbacher, who took swift action to try to reinvigorate growth after taking over at the beginning of 2009. Bayer is likely to be benefitting from improving sentiment at its other divisions such as chemicals, which are more influenced by economic cycles, and for which it was punished hard in 2008.

The lone pure US pharma major to make the top five gainers, Merck & Co, has staged a gradual recovery over the year with the acquisition of Schering-Plough, which completed in November, clearly going down well with investors. The same can be said for the biggest mid-cap gainer, Warner Chilcott, which was loudly applauded for its \$3.1bn acquisition of Procter & Gamble's drug unit, struck in August.

This contrasts with the other mega merger player this year, Pfizer, which has struggled to convince investors that buying Wyeth has added any value, as reflected in a lacklustre share price performance.

On a downer

For Takeda, 2009 was a pretty disastrous year with late stage pipeline setbacks aplenty, most significant of which was the failure of its anti-diabetic agent, alogliptin, to gain FDA and European approval; not only was it rejected by the regulators the company has been asked to conduct two-year safety studies of the drug,

pushing its launch date back by up to three years ([Alogliptin disappointment continues for Takeda, June 29, 2009](#)).

Takeda's decline is likely to be the main reason why the Japanese pharmaceutical index was the only index to register a loss last year.

The disappointing performance from some of the world's biggest biotech is probably for company specific reasons rather than the sector falling out of favour. Genzyme's woes, caused by manufacturing problems, are well documented ([Genzyme's annus horribilis shows no sign of improving, November 20, 2009](#)) whilst Gilead's decline has been gradual over the year, and can possibly be attributed to growing competition in its core HIV market and its attempt to break into the cardiovascular space, which has cost a lot of money with few tangible returns so far ([Gilead has little to show for its expensive CV push, December 15, 2009](#)).

Mid cap performance

Aside from the positive moves made by Warner Chilcott and the generics players, Allergan staged a somewhat surprising recovery last year, having initially been tipped as a company that might struggle in the credit crisis given its reliance on consumer healthcare products, such as Botox and branded eye care products. The recurring rumours last year that Glaxo could launch a takeover bid for the company has no doubt helped.

Mid cap (\$2.5bn-\$30bn) pharma companies: top risers and fallers in 2009						
Rank	Top 5 Risers	Share price (local currency)			Market capitalisation (\$bn)	
		31-Dec-08	31-Dec-09	% change	YE 2008	YE 2009
1	Warner Chilcott (\$)	14.50	28.47	96%	3.6	7.2
2	Hospira (\$)	26.82	51.00	90%	4.3	8.3
3	Mylan (\$)	9.89	18.43	86%	3.0	5.6
4	Cipla (Rs)	186.22	335.60	80%	2.8	5.8
5	Allergan (\$)	40.32	63.01	56%	12.3	19.2
	Top 5 Fallers					
1	Abraxis BioScience (\$)	65.92	40.55	(38%)	2.6	1.6
2	Genzyme (\$)	66.37	49.01	(26%)	18.0	13.0
3	Endo Pharmaceuticals (\$)	25.88	20.52	(21%)	3.5	2.4
4	Cephalon (\$)	77.04	62.42	(19%)	5.3	4.7
5	Hisamitsu Pharmaceutical (¥)	3,660	3,000	(18%)	3.5	3.2

Of the other big mid-cap fallers, 2009 was a tough year for companies which struggled to convince investors of their strategic direction, seen with the likes of Abraxis BioScience, Endo Pharmaceuticals and Cephalon.

Into context

The gains notched up this year by drug makers of all sizes should be considered in the light of last year's dismal conditions on the stock market. In 2008, of the 575 public companies within the *EvaluatePharma* universe, just 78 companies managed to record a positive share price movement during the year, meaning a staggering 86% of pharma stocks fell in 2008, as total company valuations slumped 21% from \$2.46 trillion in 2007 to \$1.94 trillion by the end of the year ([Emergent tops slim list of stock market winners for 2008, January 9, 2009](#)).

As such, 2009 was certainly a year for recovery; clinical or commercial success was, as usual, rewarded with significant outperformance.

The following table completes the picture for big pharma stocks in 2009.

Best of the rest for big pharma share price performance in 2009

		Share price (local currency)			Market capitalisation (\$bn)	
		31-Dec-08	31-Dec-09	% change	YE 2008	YE 2009
1	Novo Nordisk (DKr)	298	332	11%	33.0	34.7
2	Baxter International (\$)	53.59	58.68	9%	33.2	35.4
3	Novartis (\$)	49.76	54.43	9%	112.7	120.8
4	AstraZeneca (\$)	43.00	46.94	9%	62.2	68.1
5	Bristol-Myers Squibb (\$)	23.25	25.25	9%	46.0	50.0
6	Roche (SFr)	162.50	175.80	8%	123.4	149.3
7	Johnson & Johnson (\$)	59.83	64.41	8%	166.0	177.7
8	GlaxoSmithKline (£)	12.84	13.20	3%	98.9	111.0
9	Pfizer (\$)	17.71	18.19	3%	119.4	146.8
10	Abbott Laboratories (\$)	53.37	53.99	1%	82.9	83.5

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