

## Big pharma and biotech shares remain in demand over first half of year



[Joanne Fagg](#)

Demand for pharma and biotech shares, in the US at least, remained strong in the second quarter of the year as global stock markets continued to be battered by the European debt crisis and concerns about economic growth. The healthcare industry undoubtedly has its own headwinds, but it seems the sector is still benefiting somewhat from its status as a safe haven in the minds of investors ([Demand for big pharma shares continues in Q1; Regeneron stand out gainer in mid-caps, April 4, 2012](#)).

Only four of the world's 15 biggest drug makers have registered share price falls so far this year and even then the biggest decliner, AstraZeneca, has only dipped 3%. Leading the way up has been Novo Nordisk with a 31% advance, the Danish firm continuing to benefit from its strong position in the diabetes space. Among the mid-caps Regeneron remains the standout performer, doubling in value on the back of the hugely successful launch of its new eye drug Eylea. Shire, a stellar performer of the last couple of years, joins the fallers list, knocked from lofty heights by a clinical failure and the loss of a long-fought battle to keep generic versions of its cash cow Adderall XR off the market (see tables below).

Stock Index	% change Q1	% change H1
Dow Jones Pharma and Biotech (US)	7%	11%
S&P Pharmaceuticals (US)	3%	7%
NASDAQ Biotechnology (US)	18%	25%
Dow Jones STOXX Healthcare (EU)	0%	5%
Thomson Reuters Europe Healthcare (EU)	3%	3%
TOPIX Pharmaceutical Index (Japan)	8%	6%
FTSE-100	4%	0%
Euro STOXX 50	7%	(2%)
S&P 500	12%	8%
DJIA	8%	5%

With no clear resolution in sight to the European debt crisis, the table above reveals that the continent's major stock indices took a tumble in the second quarter, with the US markets also hit but fairsing slightly better. Drug indices, meanwhile, surged ahead in the US and managed to stay in positive territory in Europe.

Strong cash generation on top of generous dividend payments and hopes that big pharma's patent cliff is, if not behind it, at least partially traversed has kept big pharma stocks in favour so far this year. A couple of R&D successes have also piqued hopes that R&D productivity is improving, while the industry's relative defensive qualities in the face of a slowing economy have also helped the sector's image in the eyes of investors.

It is also widely expected that big pharma will continue to fish in the biotech pond for acquisitions; this fact has kept the Nasdaq Biotechnology Index buoyant so far this year, outperforming all other indices. The takeout of Amylin last week will do nothing to temper M&A speculation, although it is also certainly true that valuations are looking extremely high. Further activity, therefore, is likely to be driven by desperation among the buyers, some of whom probably cannot afford to not take the plunge on big-ticket buyouts.

### Big gainers

Among the leaders this year, Novo's performance continues to shine. The diabetes specialist has benefited

enormously over the last couple of years from the realisation that the disease - huge business now - will be even bigger business in the future. Novo shares have doubled in value in the last two years, a remarkable advance for a company that is now valued at \$66bn.

The well-received decision to spin off Abbott Laboratories' drugs business, with Humira as figurehead, continues to boost the broadly diversified company. The spinout, named AbbVie, is targeted to be completed by year end although whether it manages to exist as an independent entity for any length of time seems unlikely.

Another diversified group, Bayer, is likely benefiting from a couple of wins at its drugs arm. Hopes are rising for the colorectal cancer treatment regorafenib, while a delay in Eliquis reaching the market in the US gives Bayer's incumbent drug thinner Xarelto some breathing space.

Elsewhere Amgen pleased investors with news of a bumper \$5bn stock buyback programme, while Merck & Co, a stock that is still largely in recovery mode, released encouraging data on a late-stage insomnia product ([Merck looks to file suvorexant after positive sleep data, June 14, 2012](#)).

Large cap (\$30bn+) pharma companies: top risers and fallers in Q2 2012						
Rank	Top 5 Risers	Share price (local currency)			Market capitalisation (\$bn)	
		31-Dec-11	29-Jun-12	% change	YE 2011	Q2 2012
1	Novo Nordisk (DKr)	645.34	848.50	31%	57.5	68.2
2	Abbott Laboratories (\$)	55.75	64.47	16%	87.6	101.4
3	Bayer (€)	49.50	56.53	14%	55.9	61.7
4	Amgen (\$)	64.21	72.91	14%	50.9	56.7
5	Merck & Co (\$)	37.70	41.75	11%	114.9	127.0
	<b>Top 4 Fallers</b>					
1	AstraZeneca (\$)	46.29	44.75	(3%)	59.8	56.3
2	Teva Pharmaceutical Industries (\$)	40.36	39.44	(2%)	38.0	37.2
3	Novartis (\$)	57.17	55.90	(2%)	133.1	127.9
4	GlaxoSmithKline (£)	14.72	14.47	(2%)	117.1	114.3

With the European drug makers lagging the pack in the first half - Sanofi is the best performer so far this year with a 4% gain - broader market jitters are likely partly to blame.

Teva, however, is a notable decliner, having notched up a 12% gain over the first quarter. A big downward adjustment to forecasts by its new chief executive, Jeremy Levin, underlined the fact that reviving the Israeli generics giant will take time ([Teva adjusting to new realities, May 25, 2012](#)).

### Mid-cap gainers

Among the mid-cap gainers, Regeneron has benefited from growing hopes for a novel heart drug it is developing with Sanofi ([Sanofi and Regeneron maintain lead in race for PCSK9 success, May 28, 2012](#)). It also continues to bask in the glow of an incredibly strong launch of Eylea - the company doubled full-year sales guidance to \$500-\$550m in April and many analysts reckon that this will be beaten. *EvaluatePharma* has consensus of \$602m for this year.

Like Regeneron, Vertex and Alexion also have novel products of the sort that big pharma is hungry after - ones that are expensive and address niche markets. The success of these highly valued stocks is largely responsible for driving the Nasdaq Biotechnology Index to such heady heights.

Joining them this quarter is Onyx, whose shares have surged 53% since its myeloma drug Kyprolis received warmer-than-expected backing from US drug regulators. Takeover speculation is now rife, although whether any action will materialise at these levels is questionable, for Onyx as well as companies like Vertex and Alexion ([A chill pill for the Onyx buyout bulls, July 3, 2012](#)).

Spain's Grifols, meanwhile, has put on a remarkable surge this year, as the benefit of buying rival US blood products company Talecris last year have started to emerge.

## Laggards

Ipsen leads the mid-cap decliners so far this year. The French company is suffering from a deteriorating outlook, with disappointing guidance for 2012 compounding existing concerns about its exit from its domestic primary care market and a shake-up of US operations.

The Slovenian generics group Krka continues its long-term decline: its shares are now at a six-and-a-half-year low. Austerity measures in core markets such as Hungary, Slovenia and Poland continue to hit profitability, and investors are clearly pessimistic as to whether any recovery is in sight.

Shire, one of the industry's best performers of the past few years, has been knocked off highs this year firstly by the failure of Lialda in diverticulitis, and then the earlier-than-expected fall of Adderall XR.

Two Japanese drug makers join the fallers lists. Kyowa Hakko Kirin, which bought the UK's ProStrakan last year, appears to have suffered some profit taking after reaching two-year highs earlier this year.

Finally, Daiichi Sankyo, which has just about finished grappling with the mis-timed acquisition of a stake in the scandal-hit Indian drug maker Ranbaxy, is suffering from concerns about its looming patent cliff.

Mid cap (\$2.5-30bn+) pharma companies: top risers and fallers in Q2 2012							
Rank	Top 5 Risers	Share price (local currency)			Market capitalisation (\$bn)		EP Vantage comment and analysis
		31-Dec-11	29-Jun-12	% change	YE 2011	Q2 2012	
1	Regeneron Pharmaceuticals (\$)	55.43	114.22	106%	5.0	10.6	<a href="#">First quarter data reveal new drug launches remain challenging</a>
2	Vertex Pharmaceuticals (\$)	33.21	55.92	68%	6.9	11.8	<a href="#">Vertex's life after Incivek looking up after positive VX-809 data</a>
3	Grifols (€)	13.14	19.99	52%	3.8	5.6	<a href="#">Daily Market Movers (24 Apr 2012)</a>
4	Onyx Pharmaceuticals (\$)	43.95	66.45	51%	2.8	4.3	<a href="#">Onyx soars as Kyprolis backing allays safety concerns</a>
5	Alexion Pharmaceuticals (\$)	71.50	99.30	39%	13.2	19.1	<a href="#">Daily Market Movers (19 June 2012)</a>
<b>Top 5 Fallers</b>							
1	Ipsen (€)	24.72	19.55	(21%)	2.8	2.2	<a href="#">Daily Market Movers (29 Feb 2012)</a>
2	Krka Group (€)	52.90	42.00	(21%)	2.6	2.0	
3	Shire (\$)	103.90	86.39	(17%)	19.5	16.2	<a href="#">Shire needs pipeline focus to recover from early Adderall blow</a>
4	Kyowa Hakko Kirin (¥)	942.00	817.00	(13%)	7.1	5.7	
5	Daiichi Sankyo (¥)	1,526.00	1,339.00	(12%)	14.1	11.5	<a href="#">Daily Market Movers (11 May 2012)</a>

Evaluate HQ  
44-(0)20-7377-0800

Evaluate Americas  
+1-617-573-9450

Evaluate APAC  
+81-(0)80-1164-4754

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