

Rhenman downplays risk of US price regulation of pharmaceuticals

Stockholm (HedgeNordic) - In September, shares of companies within healthcare and biotech saw another round of sharp declines. The Nasdaq Biotechnology Index dropped more than 11 percent during the month and has over the last two months experienced a drop of more than 20 percent. From the peak, the index is down in excess of 30 percent.

Henrik Rhenman (pictured), portfolio manager of Rhenman Healthcare Equity Long/Short, commented on the development in a video interview distributed by Rhenman & Partners:

"The decline of share prices within healthcare and biotech in September was significant. In particular, shares of biotech companies were badly hit. For a single month, these are the largest drops in the sector as far as I can recall and particularly noticeable given the weak numbers in August", says Henrik Rhenman and continues:

"The sharp drops can be seen in the light of worries for the Chinese economy in August and concerns over a potential price regulation of the US market for pharmaceuticals in September."

The question regarding a price regulation of pharmaceuticals in the US, a non-regulated market today, has been subject to discussions in the congress for decades according to Rhenman. It resurfaced in September when a company raised the price of a single drug by 5.000 percent. This event had presidential candidate Hillary Clinton, via a tweet, announcing that she intends to introduce price regulations for the US pharmaceuticals market.

Henrik Rhenman downplays the risk of a price regulation and sees limited effects should it become a reality.

"Our view on the price issue is that it creates short-term turbulence, due to the large media coverage, but that in the longer term, it will have limited effects. The health sector in the USA makes up 17.5% of the GDP. Price debate is only related to pharmaceuticals, which constitute 11% of the health sector. Therefore, the impact on the sector as a whole is relatively limited."

Rhenman believes that valuations of companies within healthcare and biotech are low considering the underlying growth.

"P/E-ratios are now around 17 for the entire sector making it trading at a small premium to the S&P 500 which currently trades at a level of around 16.5. At the same time, companies within this sector are projecting much higher growth figures. I do not think there are reasons to be worried", Rhenman concludes.