

COVID-19 AND THE INVESTMENT WORLD

Reflection on the healthcare sector

October 2020

Since the beginning of this year, the worlds of business, politics, science and media have been dominated by one issue: a new coronavirus that is shaking the self-evident nature and stability of our globalised and highly industrialised society.

From an investment perspective, the question arises as to which companies in the healthcare sector can develop optimally despite the pandemic situation and where, if at all, attractive investment opportunities for higher growth over the longer term can be found.

COVID-19 and the investment world

October 2020 / David Bussmann

In brief

- COVID-19 is leading to a research race: it would be wrong to speculate on who will come out on top
 - From an investment perspective, the healthcare sector is attractive: preference should be given to the stocks of established companies
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Current situation in the healthcare sector

The level of upheaval observed within the healthcare sector since the beginning of the year has been drastic: temporarily overburdened hospitals, postponed operations, a feverish search for new treatment methods and vaccines as well as a massive expansion of testing capacities are just a few of the current themes facing market participants. Depending on the specific sub-segment, different opportunities and risks are thus being posed by the current situation. The circumstances we are faced with at present can, however, already be put into perspective: the outlook has not changed completely despite COVID-19.

Pharmaceutical and biotech companies

Despite efforts on all sides, we are still waiting to find a “magic bullet” against COVID-19. This comes as no surprise, as the development of a drug against an emerging disease can take more than ten years from the first research results to it finally being brought to market maturity. It would be nothing less than a stroke of luck if it turns out to be possible to approve a convincing treatment over the coming weeks and months that greatly reduces death rates and the length of hospital stays for COVID-19 patients. Overall, the pharmaceutical industry can also not be accused of neglecting viral diseases in its research work. In particular, significant progress has been made over the past ten years in the treatment of chronic hepatitis C and HIV patients. This has been recognised accordingly with this year’s award of the Nobel Prize in Medicine or Physiology.

The pharmaceutical sector should be given credit for the current level of commitment it is showing to COVID-19 projects, as well as for the associated research spending, as from a purely commercial point of view it appears more interesting to support endeavours in the known areas of cancer, diabetes,

cardiovascular and autoimmune diseases. Economic success will continue to be underpinned by the fight against these classic “diseases of civilisation”. From a scientific viewpoint, we now have to wait for the results of dozens of studies to see whether an existing or new drug will have a breakthrough effect in combating COVID-19.

The very realistic scenario of a successful vaccine or, at best, a weakening of the virus and it sweeping through the population will see the commercial opportunities of the COVID-19 projects diminish. It should be noted here that reports on laboratory or phase 1 studies of various smaller (Swiss) biotech companies need to be treated with the utmost caution and that price increases recorded by these stocks are based more on speculation than a plausible assessment of future success. One could also speculate on one of the known vaccine candidates. Very small companies with billions in capitalisation are suddenly appearing on stock market screens that had previously eked out an existence as small caps. Among the more than 100 vaccine developers, there are certainly some high-quality smaller research firms in addition to the large, established contenders. There are still very high levels of uncertainty, however, when it comes to the outcome of the individual studies and the side-effect profiles.

Should effective and tolerable SARS-CoV-2 vaccines be approved, this will have very great benefits for mankind; however, an economic bonanza will at best be enjoyed by the few vaccine developers that are able to roll out their solution at a global level. As the Western states are sponsoring vaccine studies with billions in support funds, it is larger players with promising candidates such as AstraZeneca, Johnson&Johnson and Pfizer, in particular, who are committing to realising no or only limited profits with their batches during the pandemic. There will be immense pressure not to make excessive

profits from the emergency situation when at the same time being faced with the granting of approval to a more expensive alternative provider. Many of the highly favoured and sought-after stocks at present, including Moderna and Novavax, would be unable to justify their current valuation level in such a case despite being successful in gaining approval.

Diagnostics and medical technology

Another area of the healthcare system that is rightly receiving a great deal of attention at the moment is diagnostics. Estimates suggest that prior to 2020 the share of total healthcare spending on diagnostics had remained at just a few percentage points. The need for testing procedures is increasing everywhere in light of the coronavirus pandemic. Some excellently positioned companies in this sector such as Roche and Abbott are providing the applications required to this end. The need for information on personal health will continue to grow even after the pandemic has been overcome. In addition to virus detection and modern genetic engineering processes for the recognition of rare diseases or tumour cells in the blood as well as high-precision insulin control, ever more technical aids are being used for diagnostic purposes. Worthy of mention here is the merging of technical and health gadgets. One such example is the Apple Watch, which can warn of heart problems. Those companies that master the scientific and technical aspects and place a focus on user-friendliness and digital implementation will be rewarded with success in future. Companies from the IT sector, including Google and Apple, can also play a major role here.

The most negative impact of the pandemic has been felt by the area of medical technology (e.g. dentures or hip prostheses) with collapsing sales of implants and surgical equipment. During the lockdown in the spring, these companies suffered enormously under the government-imposed restrictions and the focus placed on COVID-19, although ventilator manufacturers bucked this trend in the short term. Most hospitals reduced their planned investments in classic equipment and postponed non-essential interventions, which led to a decline in turnover of more than 30% for what are actually non-cyclical companies. At this point, however, the “all-clear” can be given. The turnover of these companies has recovered quickly and this dynamic segment will continue to benefit from the macroeconomic

trends associated with an ageing population in the long term. Recently, for example, the hearing aid provider Sonova was able to report a significantly more positive business outlook than had been previously expected.

Conclusion

The “SARS-CoV-2” virus is cleverly exploiting the weaknesses of the established structures of our urban and aged society: many people are asymptomatic carriers and spreaders of the virus, while infection can trigger massive health problems in older people and those with weakened immune systems. Since the beginning of the year, all important players in the healthcare sector have therefore been involved in the fight against COVID-19 at a scale never seen before. The hope and expectation is justified that research efforts will collectively lead to the end of the global pandemic next year.

Every crisis also provides opportunities: high-quality companies from the healthcare segment and also increasingly from the IT sector will in future provide us with solutions that allow us both to sustainably improve our health and also ensure that we are optimally prepared for a possible next pandemic. It will be the big task of the many high-quality companies across the healthcare sector to master the challenges faced by our global, ageing society and to ensure that the healthcare system remains affordable through the use of innovations. From an investor perspective, we believe in the long-term success of the many players in this area. We are therefore maintaining our above-average weighting of this sector in our portfolios.

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