Healthcare outperformer: why I steer clear of big pharma names

By Margaryta Kirakosian 24 Feb, 2016 at 11:39

Big pharmaceutical names are not efficient in terms of R&D activity and smaller companies with strong development teams have better chances to be innovative and bring new products to the market.

That is according to Eric Bonvin, Citywire + rated manager of the BZ Fine Fund - Pharma fund, which is the second best performing dedicated fund on a 12 month total return basis.

Speaking to *Citywire Selector*, Bonvin said he is trying to steer clear of big names, such as Swiss groups Novartis and Roche, in his portfolio to tap greater levels of innovation further down the cap structure.

‘We don’t like very much big pharma names, partially because they have low growth prospects and high M&A activity. This is not very good for companies in our view, as this process can destroy share value and takes a lot of time and management resources that can be otherwise invested in innovation.’

Bonvin said the three main criteria for stock-picking are innovation, the entrepreneur spirit of the company and its expansion potential. Swiss manufacturer of self-injection needles Ypsomed ticks all three boxes.

Bonvin said the cooperation of the company with French pharmaceutical giant Sanofi has recently been reduced as it wasn't proving successful, however, this could prove positive for the Swiss group.

‘Ypsomed decided to develop independently without a big company dictating it what to do. This says a lot about their entrepreneurship spirit and we like it a lot,’ said Bonvin.

He added that Ypsomed, despite its size, has plenty of potential, especially in terms of expansion to other markets.

‘It produces millions of safety needles for injection devices every day, it is very efficient in terms of production, which means they can reduce production costs. They have huge volumes of products that can be further marketed in the emerging markets.'

One of the biggest recent changes in the fund was the doubling his exposure to Swiss pharmaceutical company Galenica, which now makes up almost 10% of the fund.

Bonvin said the company is a leading iron franchise which it wants to expand into new areas for chronic heart failures and for new mothers having difficulties taking in iron.

‘The safety of the iron drug made by Galenica is much better than in other companies. Also with this product one can inject much more iron in one single session, which is beneficial for a patient,’ said Bonvin.

Shying away from biotech

Bonvin said biotech remains a challenging sector and he therefore cautious about it. His exposure to the biotech doesn’t exceed 4% for each stock, which is considerably smaller than his 8% holding in Ypsomed.

Bonvin said the concentrated nature of the portfolio, which consists of approximately 20 names, it is important to be sure that the company in a difficult sector will weather storms well.

‘We are only invested in big US names such as Gilead Sciences and Regeneron Pharmaceuticals. These companies have strong cash flow, good balance sheets and most probably won’t be in trouble overnight if the financing or approval of a product will go wrong,’ said Bonvin.

The BZ Fine Fund - Pharma has returned 7.08% in euro terms against a rise of 0.60% of its Citywire-assigned benchmark MSCI World/Health Care TR in euro terms over the 12 month period to the end of January 2016