



Biotech Daily

Biotech A Test For The Tenacious Investor

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By DAVID LANGSAM

Picking biotechnology and medical technology stocks is an evolving art. Despite frequent comparisons with the mining sector due to equivalent risk, that is about all the two industries have in common.

Biotechs are much more like rock bands. There's a lot of creativity, dependent on a collegiate approach, with some volatile egos and it takes years of practice to make it look easy.

CSL's chief executive officer Dr Brian McNamee once said it is a sector for the tenacious, with his company's \$US1 billion blockbuster Gardasil taking a 'mere' 17 years from discovery to market.

Be prepared for long time frames with biotechs and that's especially so for those with "a major announcement just around the corner". That corner could be many milestones away.

That said, there are a raft of companies trading below their cash value, the most obvious being Progen with about \$66 million net cash and a market capitalization of \$44 million. Circadian also has assets beyond its measure.

Other companies are either on the verge of greatness or have the potential for it, while some are puzzling through their lack of success.

The most obvious good investments are the three leaders, Cochlear, CSL and Resmed, all of which have weathered the current financial storms. Hold or buy.

Pharmaxis is recovering from a share price beating and like Acrux has product in the market and is unlikely to fall. Both are exceptionally well-run and have every indication of gaining ground.

Among the true discovery, research and development companies, there are several that have great potential, but little liquidity, like Cytosia and Stem Cell Sciences and others like Mesoblast, Genetic Technologies and Compumedics, where the founder retains a very large holding and the company is dependent on their whims.

Even the prospective seven-bagger Chemgenex with its omacetaxine leukemia drug in phase III trials (the pivotal regulatory hurdle) can be hard to buy. Biotech Daily's analyst Marc Sinatra has valued Chemgenex, conservatively, at \$5.50 and it is currently trading at 77 cents with an open share plan at 85 cents.

Avexa is in a phase III trial for its HIV drug Apricitabine and Neuren has a phase III trial underway in the US for its brain protective drug Glypromate. Both have been savaged by investors and are woefully undervalued. So much so, that they represent either 20-baggers or are in danger of going out the back door.

Again Cytopia is tightly held but has an impressive platform and cancer drug pipeline, as does Bionomics whose 'Multicore' molecular scaffolding manipulation system has produced a compound to starve cancer tumors and others for anxiety and multiple sclerosis.

Starpharma also has a nanotechnology platform that has produced the vaginal microbicide Vivagel for HIV and herpes and has signed deals with Durex to coat its condoms. But the technology can be used for myriad forms of drug delivery.

There are very early stage and very small companies with high risk potential such as Benitec, Tissue Therapies and Viralytics. Older companies fallen on hard times like Ventracor and Alchemia scream out as unbelievable bargains.

I am most reluctant to advise on stocks to sell. Some of the companies operating in the sector have serious scientific credibility problems, but that doesn't mean they won't make a lot of money. The trick will be to pull out before the snake oil is analyzed.

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He owns shares in Alchemia, Biota, Chemgenex, Cytopia and Stem Cell Sciences.