

MARC SINATRA: BIO-ROASTING 'OVERDONE', EXPECT MIXED RECOVERY

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[MARC SINATRA'S BIOGUIDE: THE JANUARY SALES](#)

Well, that "little sub-prime issue" that market commentators didn't think would be around all that long last September is still here and it took a nice chunk out of our biotechnology sector today.

Today's falls have been due primarily to the US market's poor reaction to President Bush's US\$140 billion stimulus package. The long weekend in the US also contributed to the fall by allowing angst among investors to build, as they have had to wait longer to see what the US markets will do.

Given that the Australian economy and the Asian economy, to which it is highly leveraged, are still expected to perform well and that the US only represents about 20 percent of the world economy, today's sell-off in the biotech sector looks overdone.

Although I do think Australian biotech shares will rebound from today's losses and those of previous days, I doubt whether that rebound will be dramatic for most companies.

It will take awhile for the US economy to work itself out. It will also take a while for investors to recover their appetite for risk and Australian biotech shares are about as risky as you can get.

Companies that are cashed-up and due to hit significant milestones over the next year are likely to recover quickly.

Such companies include Alchemia, Chemgenex Pharmaceuticals and Pharmaxis, all of whom expect to be seeking US registration for products later this year.

Companies that lack significant near-term milestones are likely to be much slower to recover and more dependent on the overall performance of the economy.

Cash strapped biotechs are in for a very tough time as their dwindling cash reserves and a scarcity of fresh capital force them to slow or suspend projects, making it even harder for them to hit milestones in this milestone-driven industry.

On the bright side, this may trigger the wave of rationalization among the smaller biotechs that many market commentators feel is overdue, ultimately leading to a stronger biotech industry overall.

* Sector analyst Marc Sinatra and Biotech Daily editor David Langsam both own shares in Alchemia and Chemgenex.