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Newsletter, April 2021

Beyond the pandemic:
Herd immunity vs the rise of the vaccine producers

World markets update

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Beyond the pandemic: Herd immunity vs the rise of the vaccine producers

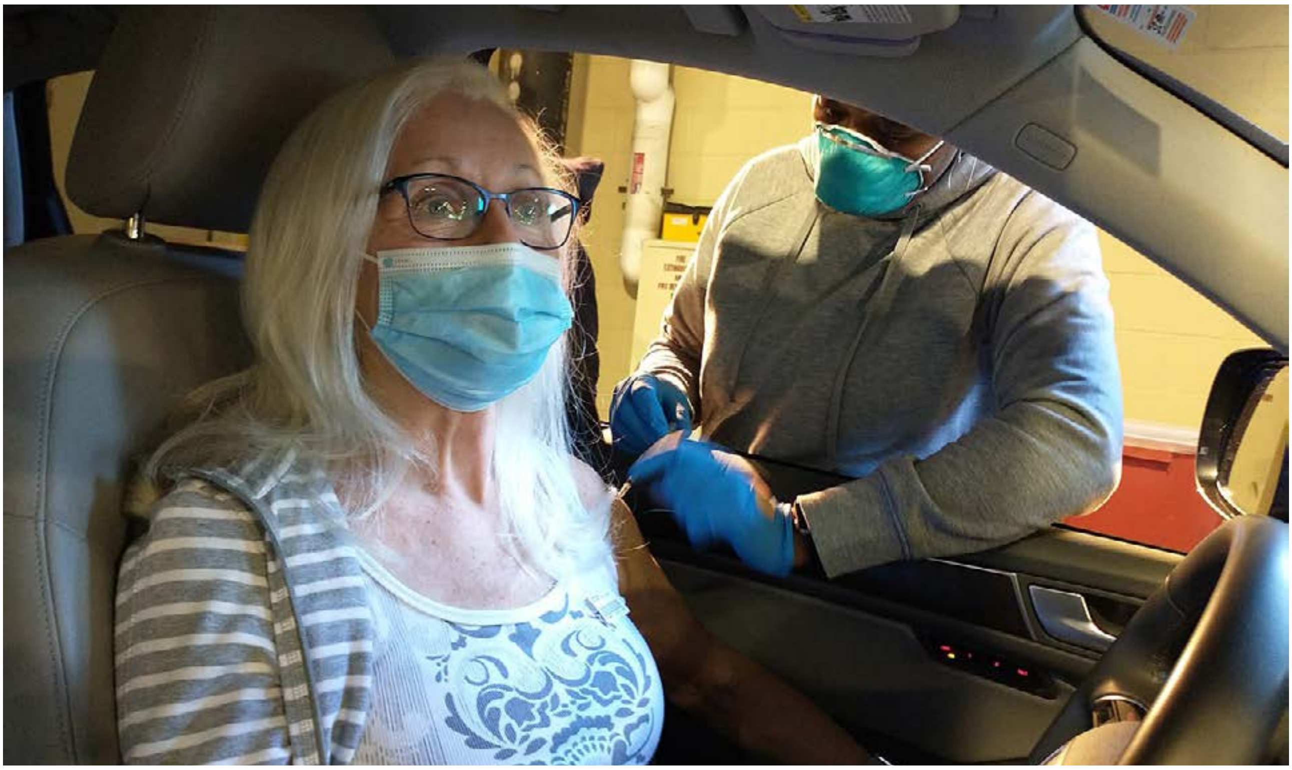
The unprecedented demand for vaccines to help bring an end to the coronavirus pandemic has created a USD 39 billion market for Covid-19 inoculations while vaccine producers' profits and share prices have soared. But does this make them a good target for investors, and what will the inevitable end of the pandemic mean for them? We take a look.

Just over a year ago, when the coronavirus pandemic started, few people outside of a specific sector of the healthcare industry would have heard of Moderna, or BioNtech. Now though, they are household names.

Both companies have also seen an astonishing change in their share prices – as of mid-February, Moderna's was up over 850 per cent and BioNTech's more than 190 per cent from the start of 2020.

The story is similar for many others – but notably not all – behind the development and production of the main vaccines that have so far been used, or are soon to be approved for use, against Covid-19.

The rise has been even more spectacular for Novavax, whose Covid-19 vaccine is expected to be approved for use in a number of countries within months. Its share



A woman receives the COVID-19 vaccine at the Orange County Convention Center in Orlando, Florida.

price is up a staggering 6,400 percent over the same period, according to the Financial Times.

Another manufacturer, Johnson & Johnson, has seen a more modest, yet still healthy, rise of 20% since the pandemic began.

Last year was definitely a good year for these companies, and 2021 is, if revenue forecasts are anything to go by, likely to be another healthy one.

Global fund ratings and research agency Morningstar has forecast vaccine sale revenues of USD 13.7 billion and USD 8 billion this year for Pfizer-BioNTech and Moderna, respectively. It is expecting USD 2.4 billion in global sales for Johnson & Johnson's jab, and USD 2 billion for Novavax's. It estimates that overall, the Covid-19 vaccine market will top USD 39 billion in 2021.

This all looks very rosy and, as the rising share prices have shown, these vaccine producers have proved a popular choice for investors in recent months.

Laura Sutcliffe, an analyst at UBS, told the Financial Times that just before the pandemic began, investors still saw vaccines as "stable, good businesses" but "unsexy".

Now though, "that's all changed, investors are paying more attention," she said.

However, do the higher share prices, USD 39 billion Covid-19 vaccine market, and multi-billion dollar vaccine revenues make these producers a good investment going forward?

Some experts say investors need to take a look at the wider picture beyond just the obvious demand for vaccines.

"On the face of it, one cannot ignore the rollout of a product that will be demanded by nearly 8 billion people. But there is always more to the story," said Andrew Vanderhost, Senior Vice President, The Tampa Bay Trust Company.

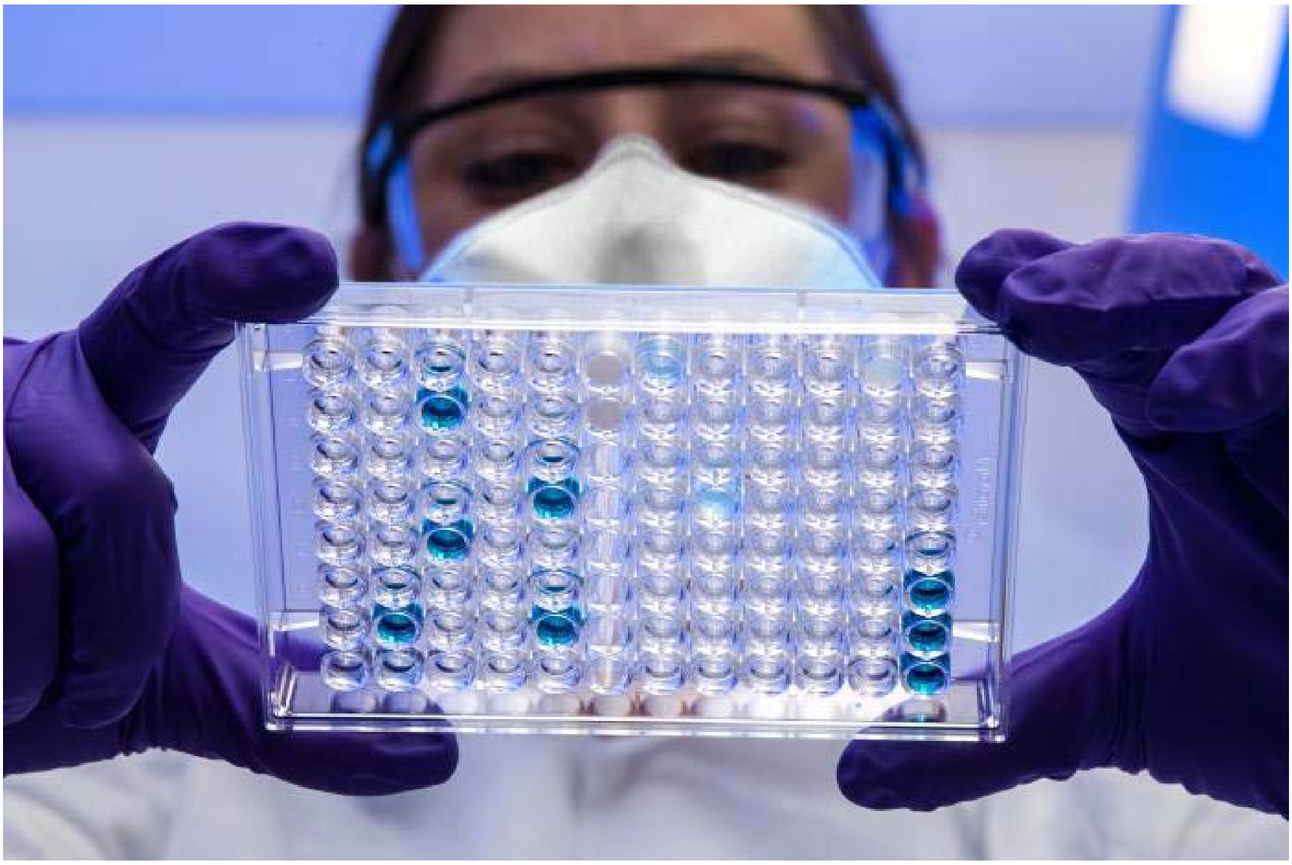
He cautioned "against thinking that the rollout of a safe and effective vaccine for Covid-19 automatically leads to an outperforming stock. Several factors need to be considered."

As Vanderhost pointed out, prices and profit margins are likely to get squeezed as competition increases – new vaccines will come through this year – and the specific conditions for storage and transport of some vaccines, notably Pfizer-BioNTech, mean there are added costs eating into margins compared to some other vaccines.

Another key consideration is the future course of the pandemic itself.

Writing for Morningstar, financial journalist Rentsje de Gruyter pointed to revenue predictions for Pfizer-BioNTech and Moderna, saying that "while those revenue figures may have boosted share prices, it is not the case that the enormous demand for vaccines and other treatments this year greatly increases the true value of these stocks."

Morningstar's own research has concluded that the so-called Fair Value of pharma companies – what a company is really worth according to Morningstar rather than just its market value – is generally lower than their market value, or about the same for vaccine makers.



At the Centers for Disease Control and Prevention (CDC)) scientists review plates containing serological test samples. Serological testing is used to detect antibodies, which indicate past infection with the virus that causes COVID-19, and is important to the understand of disease prevalence within a population. Photo Credit: James Gathany

The main reason for this, its analysts believe, is that peak vaccine sales, and the resulting higher revenues, will not last.

As more people get vaccinated and we move closer to global immunity – most estimates are for this to be achieved by late 2022 or more likely some time in 2023 – demand will logically decrease.

It forecasts the market for Covid-19 vaccines will more than half in 2022, dropping to USD 16 billion.

However, this does not mean demand for the vaccines will simply evaporate.

The scientific consensus is that the coronavirus is not going to disappear anytime soon, if at all, and disease experts, not to mention political leaders in many countries, have already said people will need to get vaccine boosters every year.

And some producers are actually planning to increase production in 2022.

At the recent annual J.P. Morgan Healthcare Conference, Moderna Chief Executive Stephane Bancel said the company is planning to make 700 million doses of its vaccine this year, but hoped to produce 1.4 billion doses in 2022, with even higher numbers if booster jabs are needed.

“We are going to live with this virus, we think, forever,” Bancel said. Another factor to take into account is that the share prices of these vaccine makers have, over the last year, more than once moved very sharply on headline news flows.

In November last year, Pfizer’s share price jumped 11% after it announced results from the phase 3 trials of its vaccine. Moderna stocks gained the same amount after they announced similar results for their vaccine a few days later.

In March this year, Novavax announced trial results for its Covid-19 vaccine showing overall 90% effectivity. Novavax shares jumped 22% after the announcement to USD 229. They were trading below USD 10 on January 21, 2020, when the company announced it was developing a coronavirus vaccine.

These jumps have been upward, perhaps understandably so, but the experience of AstraZeneca shows how easily share prices can go the other way.

The Anglo-Swiss company’s vaccine, made in collaboration with Oxford University, had been one of the frontrunners in the race to develop Covid-19 vaccine.

It released the results of phase three trials just weeks after Pfizer-BioNTech and Moderna released theirs. The astounding efficacy rates of the latter

Oxford AstraZeneca vaccine (Indian version) set an exceptionally high bar for AstraZeneca's vaccine, and when it failed to reach that, as well as muddied the waters with some unusual reporting of its vaccine's effectiveness, the company's shares fell almost 4%.

In July last year, they had been as high as GBP 93, but dipped to GBP 70 at the end of February, which is roughly where they had been when the pandemic began a year ago.

And on 11 March, news that some governments had stopped use of the vaccine to investigate reports that it had been linked to blood clots in people who had been vaccinated led to its shares falling 2.5%.

However, the vaccine remains by far and away the most used worldwide, largely because of its relative ease of storage – it can be stored in a fridge unlike the Moderna and Pfizer-BioNTech vaccines which need to be kept at very low temperatures – and low cost.

AstraZeneca has said it will sell its vaccine at-cost until at least June this year. That puts the cost at USD 4 per dose. This is in comparison with the USD 37 charged by Moderna and the USD 20 charged by Pfizer.

This last fact is one which some investors may well be looking at closely.

Beyond simple issues of demand and supply, revenues and profit margins, certain investors will want to look at another aspect of the business these Covid-vaccine producers are doing.

As De Gruyter wrote for Morningstar: "Of course, market price is not the only thing in the spotlight when it comes to Covid-19. The global pandemic has thrust into the spotlight ESG [Environmental, Social, Governance] matters and particularly the 'S' or matters of social good. That's a good thing for companies working to find a cure."

And this is where AstraZeneca has won praise – its decision to price the vaccine from a socially good standpoint may be putting it higher on ESG investors' radars than its Covid-19 vaccine competitors.

In a note to investors, Sophie Lund-Yates, Equity Analyst at Hargreaves Lansdown, wrote in March that the company's at-cost pricing policy meant it was "at the centre of the push to vaccinate globally – not just in wealthy regions like Europe and the US. From an ESG standpoint, that's fantastic".

Interestingly, according to Refinitiv, the financial markets data research group, AstraZeneca is the most highly rated of all FTSE 100 companies with respect to ESG criteria.

Writing in the Financial Times at the end of December, soon after the AstraZeneca vaccine had been approved for use in the UK, Steven Desmyter, Man Group's co-head of responsible investing, said:

"The markets seem to have decided that Pfizer and Moderna are the winners of the Covid-19 vaccine race.

"While the 90% plus effectiveness reads of their vaccine trials sent shares in both companies soaring, Oxford University/AstraZeneca's lower effectiveness and more muddled safety release saw more than USD 4 billion wiped off the British-Swedish firm's stock price.

"But we may be missing something crucial here: the fact that a Covid-19 vaccine is unlikely to be a huge source of near-term profitability for any firm.

"We are not in a world where a company can be seen to be profiteering from the pandemic and even if a coronavirus vaccine becomes as regular as flu jabs, it is unlikely ever to be a high-margin product. Rather, the real winner in the vaccine race will be the business that is able to generate the most positive impact from its efforts and to score the biggest PR win. When the dust settles, that may well be AstraZeneca."

In February, a report in the Washington Post highlighted anger among health and social justice campaigners about the sales strategy of some vaccine producers, specifically Moderna.

It pointed out that at the time, none of its doses had yet been earmarked for low-income nations and that many of its competitors, including the likes of Pfizer and AstraZeneca, had made commitments to the World Health Organisation's COVAX scheme to provide vaccines to poorer states. Moderna was still in negotiations.

Moderna "seems to have refused to allocate or sell any of their supply beyond the wealthiest countries, the most profitable markets", said Suerie Moon, co-director of the Global Health Centre at the Graduate Institute of International and Development Studies in Geneva.

Desmyter concluded: "There's a reason beyond ethics that ESG has gained such a following in recent years. You don't have to be Thomas Piketty to recognise that inequality poses a significant risk to the global system as it stands. Far-sighted investors recognise that firms need to play a part in redressing the most egregious imbalances, whether these be social or environmental."

Experts also point out that for many of these companies, their Covid-19 vaccines are only one part of a very large portfolio of pharmaceutical products, some of which are seeing rising sales.

Pfizer-BioNTech and Moderna Covid-19 vaccines.

At Pfizer, for example, worldwide sales of one of its best-selling pharmaceuticals, the anticoagulant Eliquis, for 2020 came in at USD 4.9 billion, a 17% rise on 2019. In the same period, revenues for its cancer drug Ibrance, and its rheumatoid arthritis treatment Xeljanz, were both up 9% year-on-year.

AstraZeneca's full-year results for 2020 showed a 10% rise in total revenues to USD 26 billion which the company said was driven primarily by new medicines. Revenues from sales of its Covid vaccine totalled a mere USD 2 million.

Its best-selling cancer treatment, Tagrisso, saw a 31% jump in sales in the fourth quarter of last year, while sales of other cancer drugs it produces, Imfinzi and Lynparza, were up 31% and 42%, respectively.

It should be noted though that the wide portfolios and investments in medicines at major pharma companies are not always a major boost for share prices.

Although Pfizer's Cominarty vaccine, developed in partnership with BioNTech, produced huge revenues in 2020, the company's share price was little changed for the year. The performance was largely down to falls in its shares following disappointing trial results for one of its cancer drugs.

Meanwhile, whatever happens with the vaccines in the post-pandemic environment, the coronavirus crisis may have given an unexpected boost to prospects in other areas of healthcare.

Biotechnology, for example, has been able to showcase recent innovations and draw attention to companies working in the field.

The search for treatments and vaccines for Covid 19 has also furthered the understanding and knowledge of the possible applications of new technology, such as the Messenger RNA (mRNA) technology used in the Moderna and Pfizer-BioNTech vaccines.

Meanwhile, the experience of the coronavirus pandemic could spur governments to increase investment in pandemic preparedness – many scientists say it is a matter of if, not when, another pandemic will occur – and awareness of infectious diseases generally.

Some experts investing in the sector say they are betting on a mix of continued attractive valuations and significant innovation in the industry in the next few years.

Eddie Yoon, portfolio manager of Fidelity Advisor Health Care Fund, said in a note to investors in February that the outlook for the healthcare sector in a post-Covid world was "very encouraging".

"I'm playing offense in the sector based on attractive valuations, significant industry innovation, and reduced risk – all of which could help in coming years," he said.

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WORLD MARKETS UPDATE

GLOBAL

Stimulus measures, vaccine roll-outs, and lockdowns dominated the headlines and moved market sentiment in March. Among the major events of the month was the enactment of a USD 1.9 trillion relief package in the US, and Europe's ongoing struggles to keep coronavirus infections under control while implementing vaccination programmes.

Most of the major developed markets had a positive month, but emerging market equities struggled to make progress as the US economy's rebound appeared to be on track to outpace other developed markets, fuelling demand for dollars and US stocks.

US

S&P 500	4.4%	Dow Jones	6.8%
MSCI USA	3.6%	NASDAQ	0.5%

In the US, stimulus once again made market headlines with the enactment of a USD 1.9 trillion coronavirus relief package. This was followed by the unveiling of an infrastructure initiative, the first of two sweeping economic recovery proposals put forward by the Biden administration. The infrastructure initiative would see investment in traditional projects like road construction but also in tackling climate change. The second plan, likely to be finalised in April, is expected to involve huge investment in health care and other social care measures.

The combined cost of the two proposals is expected to top USD 4 trillion.

The massive stimulus being released in America and the speedy pace of the country's vaccine roll-out helped US equity benchmarks to record highs during the month. However, it was not all plain sailing for local stocks as sentiment was weighed down by worries over the global economic recovery as strict lockdowns remained in place in some countries and coronavirus infections continued to rise in Europe and elsewhere. Investors also fretted over inflation and interest rates.

Latest economic data was mixed with existing and new home sales readings for February much worse than expected and business investment less than encouraging. However, analysts put much of this down to extreme poor weather in the month and gauges of manufacturing and service sector activity remained elevated, consumer sentiment positive, and labour readings decent. Core inflation remained muted in February, rising 0.1% month-on-month and 1.3% year-on-year.

Europe

MSCI EMU	6.6%	DAX	8.9%
FTSE 100	4.2%	CAC 40	6.5%

On European markets, optimism over global growth offset worries over the slow roll out of vaccination programmes across the continent and worsening coronavirus infection rates and stricter lockdowns in many states. Local shares were lifted by the approval of a new stimulus package in the US, as well as pledges by the European Central Bank (ECB) to buy more bonds to counter rising borrowing costs.

There were some encouraging data releases in the month with French consumer confidence rising unexpectedly in March while the Eurozone flash composite Purchasing Managers' Index (PMI) reading for the same month came in at 52.5, the highest level since late 2018 and up on the 48.8 figure for the previous month. This came as manufacturing activity grew at its best rate in 23 years. There remains some weakness in the services sector, however.

In the UK, data showed the economy shrank 2.9% month-on-month and 9.2% year-on-year in January on the back of a sharp slowdown in the services sector amid a strict lockdown. Meanwhile, with the UK now fully out of the EU, exports of UK goods to the bloc, tumbled in January. Excluding gold and other precious metals, they were down 40.7% from the previous month. UK imports from the EU fell 28.8%. Announcing the budget, UK Chancellor Rishi Sunak said there would be GBP 65 billion of additional fiscal spending in the coming fiscal year, temporary tax breaks for business investment, and an extension of measures to support jobs.

Asia

MSCI Australia	0.7%	Shanghai Composite	-1.9%
MSCI ASEAN	0.2%	Nikkei 225	1.4%
KOSPI	2.3%	SENSEX	0.9%

On Japanese equity markets, concerns over global economic growth persisted in March amid continuing lockdowns in key markets, even as a state of emergency imposed to try and contain the spread of the coronavirus in the Tokyo region was lifted. However, sentiment was buoyed by parliament's approval of a record budget of almost USD 1 trillion for the next fiscal year which raised the prospect of more stimulus as the pandemic drags on. The budget for the year from 1 April includes more emergency spending on pandemic measures following a set of stimulus packages worth a combined USD 3 trillion already implemented in the most recent fiscal year. The budget, which also contains spending to help achieve a digital transformation and carbon neutrality, will swell Japan's already large debt burden which is more than twice the size of its USD 5 trillion economy – the largest of any industrialised nation.

In China, stocks had their worst month for a year with the main equity benchmarks, the CSI 300 and Shanghai Composite indices both closing lower. This came amid continuing tensions with the US. However, latest data underlined the economy's relative strength compared to most other markets. Manufacturing activity expanded at its quickest pace in three months in March amid better rising global demand. The official manufacturing Purchasing Manager's Index (PMI) reading rose to 51.9 from 50.6 in February, according to data from the National Bureau of Statistics (NBS), marking a 13th straight month of growth. Analysts had forecast a reading of 51.0. It was also reported that China is considering establishing a stock exchange to attract overseas-listed firms in a bid to strengthen the international status of its onshore share markets. Reuters reported that Beijing has asked financial market regulators to draw up plans for an exchange that would target Chinese firms listed in offshore markets such as Hong Kong and the United States. The government is hoping the exchange would also attract the likes of Apple and other major global companies.

In India, a surge in coronavirus cases weighed on sentiment during the month while investors also kept an eye on rising US Treasury yields which prompted fears of foreign fund outflows. However, officials remain confident that, despite rising infection numbers, the Indian economy will grow strongly in the coming year. Central bank governor Shaktikanta Das was quoted by local media as saying that the revival in India's economic activity should continue "unabated" in the coming months and that strict lockdowns such as those imposed last year may not be necessary to curb the current wave of infections. The bank is sticking to its most recent forecast of 10.5% economic growth for the economy for fiscal year 2021/22.

Korean stocks posted a fifth straight month of gains, as sentiment remained generally positive despite worries over rising US Treasury yields. In economic news, factory output in February grew at its fastest pace in eight months and the International Monetary Fund (IMF) upgraded the country's growth forecast for this year, raising it to 3.6% from a previous estimate of 3.1% on the back of improving tech exports and extra fiscal stimulus.

In Singapore, industrial production was up for the fourth month in a row, growing 16.4% year-on-year in February on the back of growth in electronics manufacturing. The reading was well ahead of analysts' estimates.

Elsewhere in the region, the World Bank has lowered its economic growth projections for Thailand for this year, bringing them down from an earlier forecast of 4% to 3.4%. This comes as data shows Thailand's economy shrank 6.1% last year – its sharpest contraction in over two decades – with the key tourist sector, which accounts for 12% of GDP, battered by the effects of the pandemic. In February, the number of foreign tourists was down 99.7% year-on-year. This followed a 99.8% slump in January. The country's central bank has said it is expecting 3 million foreign tourists to visit Thailand this year compared to 6.7 million in 2020, which itself was down on 39.9 million in 2019. It was also reported that 1.45 million jobs have been lost in the country's tourism industry since the start of the pandemic, including 400,000 in the first quarter of this year.

In Malaysia, exports were up 17.6% from a year earlier in February, driven by rising shipments of electronic goods. The reading beat consensus estimates. Imports for the same month rose 12.7% year-on-year, well up on the 1.3% expansion registered in January.

In the Philippines, the central bank left rates on hold, citing a need to balance the needs of the economy in the face of coronavirus challenges and concerns about rising inflation. A recent rise in Covid cases is threatening hopes for an economic rebound this year.

Latin America

MSCI Latin America	4.7%	MSCI Chile	8.4%
MSCI Brazil 25-50	4.3%	MSCI Mexico	8.4%
MSCI Colombia	-5.4%	MSCI Argentina	-3.7%

Brazil was gripped by political crisis in the month as the heads of the Army, Navy and Air Force all quit in apparent protest at President Jair Bolsonaro's handling of the pandemic. The resignations came just a day after six ministers in his cabinet left their jobs. The problems for the president came as the country – which has the region's largest economy – saw a surge in coronavirus infections and daily death rates in the thousands. Bolsonaro continues to face domestic ire over his approach to the pandemic, including his public statements questioning the need for restrictions and the seriousness of the disease itself. Meanwhile, convictions against former president Lula da Silva were annulled by a court in the month, paving the way for him to run for office in next year's presidential elections. Political experts believe he could oust Bolsonaro from office. Analysts have pointed out that Brazil's very uncertain political outlook means that markets are unlikely to price out the recently increased risk premium on Brazilian assets in the foreseeable future. Meanwhile, official data showed the economy added a net 401,639 jobs in February – the highest figure since records began in 1992.

In Mexico, annual inflation accelerated to its highest rate in four months in February on the back of rising energy costs. Consumer prices rose by 3.76% over the twelve months to February, just above consensus forecasts.

In Chile, parliament has begun debating a bill that would allow people to withdraw money from their pensions – the third legislation of its kind since the pandemic began. Three million Chileans have completely emptied their retirement funds under the two previous withdrawal legislations. It is thought that a third withdrawal programme could leave up to 40% of local workers with no money in their retirement accounts.

Africa

MSCI FM Africa	-1.0%	FTSE/JSE	6.9%
MSCI South Africa	6.2%	MSCI Egypt	-8.3%
MSCI Kenya	-2.5%	MSCI Nigeria	0.6%

In Egypt, the purchasing managers' index (PMI) reading increased slightly to 49.3 in February, up from 48.7 in January. However, the reading was below the 50 mark which represents expansion. Data also showed Egypt's non-oil private sector economic conditions weakened for the third month in a row in February amid declines in output and new business.

In South Africa, the reading for the manufacturing purchasing managers' index (PMI) rose to 53.0 in February from 50.9 in the previous month. Inflation rose 2.9% year-on-year in the same month, which was less than market expectations (3.1%). The figure of 2.9% was also below the central bank's 3%-6% target range.

Elsewhere, Kenya's credit rating was downgraded to 'B' by global ratings agency Standard & Poor's. The group cited rising fiscal and external pressures for the move. Meanwhile, the country's purchasing managers' index (PMI) reading for February came in at 50.9, down from 53.2 in January. This latest reading also represents the weakest rate of improvement since July 2020. Reports have also underlined how hard the country's banking sector has been hit by the effects of the coronavirus crisis. Many top tier banks had reported big falls in profits last year as lenders struggled with huge provisions for bad loans triggered by the pandemic. Equity Bank, NCBA, Absa Bank, Co-operative, and KCB are among the big banks who have reported significant declines in net profit for 2020. NCBA alone reported a 42 per cent dip in post-tax profits while Absa Bank announced a 44 per cent drop in profits.

In Nigeria, inflation hit a four-year high in February, reaching 17.3% on the back of a more than 20% jump in food prices. Inflation has been running in double digits since 2016, and the new high comes as the economy teeters on the brink of recession and amid growing concerns that a combination of rising unemployment – data released in March showed the unemployment rate in the country running at 33% for the fourth quarter of last year – climbing prices and low growth could lead to social unrest. ■

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Cornhill Sales Diary

Even though staying at home is the safest course of action during the current pandemic, Cornhill remains fully open for business. Your sales representatives are more than happy to provide assistance via calls or virtual meetings.