

Encouraging expansion of vaccine R&D pipeline

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ECO Animal Health has undertaken what represents a potentially important expansion of its R&D pipeline via a collaboration to develop veterinary vaccines against three porcine infectious disease targets using a novel self-amplifying RNA (saRNA) technology developed by Professor Robin Shattock of Imperial College London. The collaboration will assess saRNA-based veterinary vaccines against two viral and one bacterial infection in ECO's validated swine disease models with a view to selecting candidates for development and commercialisation under license from Imperial College.

saRNA is a new platform for the development of vaccines and immunotherapeutics that is similar to the mRNA approach used in the Moderna and Pfizer/BioNtech Covid vaccines. The technology is being developed for human applications by VaxEquity, a start-up founded by Professor Shattock in collaboration with AstraZeneca. The novel self-amplifying aspect of the technology, however, is likely to be important in animal health applications as it offers potential for achieving protection at lower doses that may make it economic for use in farming/animal health applications.

The disease targets have not been disclosed, but ECO has stated that they are among the most economically damaging to the swine industry. The initial targets will be respiratory viruses and an intestinal bacteria. The global pig herd amounts to nearly 800 million animals and accounts for 36% of total meat consumption.

ECO has traditionally used an outsourced/collaborative model for R&D, as is the case here, and has tended to give its R&D activities a very low profile compared to norms in the biotech industry. It is, however, developing a pipeline of vaccines and biologics that are expected to reach the market over the medium term with the aim of diversifying its revenue base away from Aivlosin that currently provides the mainstay of sales. Sales of Aivlosin are also highly influenced by demand in China, which is the largest market for pork in the world. Chinese pork prices have been highly volatile over the past three years as a result of an African Swine Fever outbreak in 2019.

ECO's shares currently trade at a multi-year low - they are around their lowest point since 2009 - primarily on concerns around weakness in the Chinese pork market, as the economics of pork production are a key driver of demand for Aivlosin. Chinese pork prices fell in late 2021 and early 2022, likely because of lower demand due to Covid-related population lockdowns (in major cities in the country). However, since May this year there have been signs that prices have started to recover.

The company is due to report its financial results for the year to March 2022 next month, with consensus suggesting sales of c. £81.5m and adjusted EBITDA of £6-7m. Both will be lower than exceptional levels seen in 2021. Current ECO's enterprise value is £64m (based on forecast cash of c £18m) suggesting an **EV/sales ratio of 0.8 and EV/EBITDA of ~9-10, both of which are well below norms in the animal health sector** (peer group EV/sales 2.5-3.0x). ECO resumed payment of a dividend in 2021, at 1p/share, that if repeated, would offer a yield of 0.8%.

Company Data

| | |
|-------------------|------------------|
| EPIC | EAH |
| Price | 120p |
| 52 weeks High/Low | 390p/115p |
| Market cap | £82m |
| Net cash (LBSD) | £22.9m |
| Sector | Pharma & Biotech |

Share Price, p



Source: ADVFN

Description

ECO Animal Health's (ECO) main product is the macrolide antibiotic Aivlosin for the treatment of enteric and respiratory diseases in pigs and poultry. It also sells a suite of products to treat and prevent parasites in sheep, horses, cattle, dogs, and pigs.

ECO operates through a combination of joint ventures and wholly owned subsidiaries in high volume animal production markets in North and South America, along with key producing pork-producing regions in Asia.

Summary results

| y/e 30 Mar, £m | FY21 | H121 | H122 |
|----------------|-------|------|------|
| Sales | 105.6 | 42.5 | 38.5 |
| EBITDA* | 24.4 | 6.7 | 3.8 |
| Net cash | 19.5 | 12.9 | 22.3 |
| EV/Sales** | 1.1 | 2.9 | 3.0 |

Source: Company historic data * Adjusted earnings before interest, tax, depreciation, amortisation, exceptional items. Note EV calculated based on current market capitalised less year end cash.

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