global investor by Jean Pierre Verster

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The vaccine investment case

The job of a successful investor often includes exploring a specialist field of knowledge, to understand a business and the industry it operates in.

While a generalist can never claim to know as much as specialists in the field, astute investors need to be able to form a reasonably accurate expectation about a business's future prospects.

The pandemic has turned many of us into armchair epidemiologists, to the point of pouring over studies published in medical journals. As vaccinations ramp up around the world, let's consider the Covid vaccines from an investment perspective.

Pfizer-BioNTech

Pfizer is a biopharma juggernaut, with a market cap of roughly \$220bn and revenue of \$42bn for the 2020 financial year. For 2021, Pfizer expects earnings per share (EPS) of \$2.50-\$2.60 excluding the impact of the Covid vaccine, which is estimated to add an additional \$26bn of revenue and \$1 of EPS.

The major uncertainty for all vaccine developers is whether future booster shots will be required, which could add significantly to the bottom line from 2022 onwards. But even if booster shots aren't required, and vaccine-related revenue dwindles, Pfizer's valuation is not demanding. The caveat is that the company is not expected to show exciting long-term growth, given the future expiry profile of its drug patents. Pfizer will need to continue developing new blockbuster medicines to keep investors happy.

BioNTech, meanwhile, is a German trailblazer in the development of mRNA technology, which, in simple terms, gives cells instructions for how to make a harmless protein (antigen) that is unique to a foreign invader (pathogen). The antigen induces an immune response, which allows the body to "remember" how to attack the foreign invader (such as a virus) if there is future exposure.

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BioNTech started collaborating with Pfizer in 2018 to jointly develop an mRNA flu vaccine, which fortuitously allowed for the rapid development of the Covid vaccine. Since listing on the Nasdaq in October 2019, BioNTech shares have risen more than tenfold to reach a market cap of roughly \$50bn. Still, given the potential for mRNA as a next-generation immunotherapy against infectious diseases and cancer, we think the shares are trading around fair value.

Moderna

Moderna was founded in 2010 by a group of leading Boston-based scientists exploring the novel area of mRNA. Its mRNA-based Covid vaccine, introduced in December 2020, is the company's first (and so far only) commercial product. But Moderna has an exciting pipeline of future products that are in early phases of clinical trial. Compared to traditional vaccine manufacturing processes, making an mRNA vaccine is much simpler (and therefore also much more profitable), since it is manufactured by chemical rather than biological synthesis.

Moderna has a market cap of just more than \$70bn, and its shares have risen roughly eight times since its IPO in December 2018. The current share price implies that many of its pipeline products will become blockbusters — but if this does not pan out, the shares are expensive.

Johnson & Johnson (J&J)

With divisions focusing on medical devices, pharmaceuticals and consumer health products, J&J is the largest healthcare company in the world. It was founded in 1886, and has a market cap approaching \$450bn. Its Netherlands-based subsidiary, Janssen Vaccines, developed a Covid vaccine utilising a viral vector approach, which was pioneered in Ebola vaccines. The approach entails modifying a different virus to contain an antigen of the target virus, triggering an immune response.

A single dose of the J&J vaccine is relatively cheap, so it will generate much less revenue than its competitors' double-dose mRNA vaccine. Taking the company's size into account as well, profits from the Covid vaccine is not expected to make such a significant impact on J&J's shares, which implies that the shares are fairly valued.

Oxford-AstraZeneca

The vaccine developed by the British-Swedish pharmaceutical company AstraZeneca and Oxford University has been suspended in a few countries, including SA, after concerns regarding efficacy against certain virus variants and extremely rare instances of blood clots. The issues have weighed on AstraZeneca's share price, which is trading at levels lower than a year ago.

Still, the recent acquisition of Alexion, a rare diseases specialist, has boosted AstraZeneca's market cap to roughly \$140bn and enhanced growth prospects for the group. We are optimistic about its progress in areas such as oncology, cardiovascular, renal and metabolism. The current negative sentiment surrounding AstraZeneca could therefore be an opportunity to invest at an attractive valuation.

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