

Vectura Group

Not pausing for breath

Building on its positive adjusted H118 EBITDA and its partnerships, Vectura has announced three recent additional developments. Partner Mundipharma received a positive EU opinion for flutiform (46% of H118 revenues) for the treatment of asthma in children, expanding its market from adults and adolescents. The agreement with Hikma to develop generic versions of GSK's Ellipta brings upfront and milestone payments and ensures Vectura's participation in the global respiratory disease market irrespective of whether generic or branded products predominate in each market. The failure of VR475 in severe uncontrolled asthma reflects more the difficulty for a non-biologic product to treat these patients.

Financial results underscore profitable partnerships

Vectura reported H118 revenues of £80m, up 1.4% y-o-y, including the inhaled portfolio, which was up 7.1% to £64.7m. Flutiform revenues, which were up 3.1% and comprise 46% of the total, are transitioning to the product supply margin in Europe and royalties from partner Kyorin in Japan. Ellipta revenues were £8.8m of the maximum £9.0m expected in 2018. Adjusted EBITDA was £24.6m (H117: 16.2m), driven mainly by lower amortisation and impairment charges (£45.2m vs £53.3m in H117) but higher exceptional items (£5.7m vs £0.4m in H117). Cash was £83.9m (vs £103.7 at year end 2017) after a £15m share buyback and capex.

Subsector fundamentals: More than just favourable

The development of drugs to treat respiratory diseases is commercially attractive. Many smokers develop the symptoms of chronic obstructive pulmonary disease (COPD) and eventually require drug therapy. This, like Vectura's products, is often inhaled therapy. Air pollution, and smoking in younger people in southern European and emerging markets will continue to increase the prevalence of asthma and COPD globally. Like COPD, the asthma market is split between branded and generic medicines, and Vectura's royalties from branded products like GSK's Ellipta and the recent Hikma collaboration to develop a generic Ellipta illustrates Vectura's hedged participation at both ends of the branded/generic respiratory value chain. This is further illustrated by Vectura's existing collaboration with Hikma on an Advair generic, with a launch expected in 2020. The launch of generic Advair has already been incorporated in GSK's financial guidance.

Valuation: Few mid-cap respiratory peers

A pure-play respiratory franchise with revenue growth, positive EBITDA, a pipeline and an EV of £377m combine to make Vectura a rare investment proposition.

Consensus estimates

Year end	Revenue (£m)	PBT (£m)	EPS (p)	DPS (p)	P/E (x)	Yield (%)
12/16	126.5	33.4	(5.3)	0.00	N/A	N/A
12/17	148.0	12.0	(12.6)	0.00	N/A	N/A
12/18e	156.5	26.2	(8.9)	0.00	N/A	N/A
12/19e	167.0	37.6	(4.9)	0.00	N/A	N/A

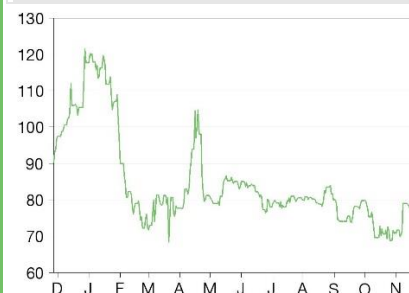
Source: Company data, Thomson Reuters I/B/E/S estimates. EPS is as reported by GAAP

Pharma & biotech

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Price 69.30p
Market cap £461m

Share price graph



Share details

Code VEC
Listing LSE
Shares in issue 665.3m

Business description

Vectura Group develops inhaled therapies and devices for the treatment of respiratory diseases like chronic obstructive pulmonary disease (COPD) and asthma. Its products are either licensed to, or are on the market with partners like Novartis, Mundipharma, Bayer and GlaxoSmithKline (GSK).

Bull

- A rare profitable UK speciality pharmaceutical company with a clinical development pipeline.
- Technologies in formulation and inhalation devices including dry powder and metered dose inhalers and novel nebulised products.
- Branded and generic product partnerships.

Bear

- Large markets with generic competition drive prices down.
- Meaningful improvement on the standard of care is challenging.
- Steady near-term revenues and royalties (with FX translation and wholesaler effects) that may not appeal to the life science investor focused on binary events.

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