Investors search for a winner in the vaccine race

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It’s not just about who’s first, but about who can deliver

The race to develop a COVID-19 coronavirus vaccine is on. There are literally around 100 companies globally as well as numerous government organizations all rushing to get an effective and safe COVID-19 vaccine approved and ready for widespread use. After developing a vaccine comes testing (including 3 phases of human trials with bigger numbers in each phase), then FDA approval in the U.S., and finally production. Normally this process can take up to 10 years, but with the personal and global economic challenges of COVID-19, the goal is to have an effective and safe vaccine in 1-2 years, with the leading companies now moving into phase 3 human trials.

For investors the key question is which companies will win the race to produce a safe and effective vaccine, stopping the pandemic and allowing the global economy to return to some form of normality. Certainly with global cases at a staggering 20,810,774 and 746,411 deaths, the world desperately needs a cure. Worst hit countries are currently the USA, Brazil and India.

Cumulative global COVID-19 cases by country as of August 12, 2020

Source: www.worldometers.info

Today I look at which countries and companies are leading the COVID-19 vaccine race to see what may happen next.

Russia

The world's press lit up this past week with Russia's President Putin's statement that Russia has registered the world's first Covid-19 vaccine, named 'Sputnik V'. While this was met with some skepticism and perhaps jealousy by the West, it appears that Russia is very well advanced and experienced with vaccines and in fact may likely end up with the world's first COVID-19 vaccine, in part due to their fast-tracked testing process. The Gamaleya vaccine (developed through the Russian Direct Investment Fund) began Phase 3 testing last week. Russian officials have said production is likely to start next month (Sept.) and the Health Ministry said mass vaccinations could begin by October, 2020.

The bigger question is who outside of Russia will use it? I highly doubt the western world will choose a Russian vaccine over a western vaccine. Some industry bodies have called the Russian Covid-19 vaccine a Pandora's Box due to the shortened testing and the risks that come with it.

China

Many see China leading the global vaccine race. Reuters recently reported: "Chinese ventures are leading at least eight of the 26 global vaccine development projects currently testing on humans."

China's leading COVID-19 vaccine company is Sinovac Biotech Ltd. with their 'CoronaVac' vaccine. Their phase 3 trial in Indonesia with 1,620 human subjects is expected to end by December 2020. Sinovac's vaccine candidate is also being tested in other places around the world, including phase 3 trials in Brazil.

Last week it was announced that Shenzhen Kangtai Biological Products (SHE: 300601) will produce AstraZeneca Plc's prospective COVID-19 vaccine in mainland China (100m doses). A big plus for AstraZeneca to potentially gain access to the 1.4 billion person Chinese market.

Vaccine tracker timeline

Source: Bloomberg

UK/Europe

Two of the big four global vaccine companies are headquartered in the UK or Europe. GlaxoSmithKline (GSK) is in the UK and Sanofi (SNY) is in France. Both will likely be front runners in Europe come late 2020 and they may even develop a joint venture vaccine. AstraZeneca (AZN) is the other main competitor who is headquartered in the UK.

USA

The final two of the big four global vaccine companies are Pfizer (PFE) and Merck (MRK), both headquartered in the USA. In June it was reported that Trump "has selected its COVID-19 vaccine (five) finalists for Operation Warp Speed". Naturally, four of the five are headquartered in the USA – Pfizer, Merck, Johnson & Johnson (JNJ) and Moderna (MRNA). The fifth was AstraZeneca. The goal of Operation Warp Speed is to deliver 300 million doses of a safe, effective vaccine for COVID-19 by January 2021.

In terms of funding, the US government has given massive support to the following companies:

- March 30: HHS (U.S. Department of Health and Human

Services) announced $456 million in funds for Johnson & Johnson's candidate vaccine, with Phase 1 clinical trials set to begin this summer.

- April 16: HHS made up to $483 million in support available for Moderna's candidate vaccine, which began Phase 1 trials on March 16 and received a fast-track designation from the FDA.
- May 21: HHS announced up to $1.2 billion in support for AstraZeneca's candidate vaccine, developed in conjunction with the University of Oxford. The agreement is to make available at least 300 million doses of the vaccine for the United States, with the first doses delivered as early as October 2020 and Phase 3 clinical studies beginning this summer with approximately 30,000 volunteers in the United States.
- May 12: DoD and HHS announced a $138 million contract with ApiJect for more than 100 million prefilled syringes for distribution across the United States by year-end 2020, as well as the development of manufacturing capacity for the ultimate production goal of over 500 million prefilled syringes in 2021.

Source: HHS.gov Fact Sheet

More recently, on August 11, 2020 President Trump announced a deal with Moderna for 100 million doses of coronavirus vaccine, said to be worth US$1.53b.

US vaccine spending – Trump's vaccine deals

Source: Bloomberg – Vaccine for All 'Decent Amount' of Weeks Away

India

India is already a world-leader in vaccine production, currently producing ~60% of global vaccines. The Serum Institute of India may also do well as they have the world's largest vaccine manufacturing facility and they are now preparing to be capable of producing 1 billion COVID-19 vaccine doses pa. The Serum Institute already has a deal to produce a billion doses of a COVID-19 vaccine being developed by the University of Oxford and AstraZeneca. This places AstraZeneca in a very strong position to be able to reach the largest scale of all vaccine competitors.

COVID-19 vaccines are already in phase 3 human trials in many parts of the world

For an in depth list, top 5, and daily stock price performance of the global vaccine companies investors can search the daily InvestorIntel watchlists here.

InvestorChannel's Covid-19 Watchlist Update for Wednesday, August 12, 2020

Source: InvestorChannel's Covid-19 Watchlist Update

Closing remarks

For now it looks like the Russians may beat the Chinese and be first to market with a COVID-19 vaccine, followed by the USA then Europe. This could happen as early as October or November this year, but will take time to scale up production, and there my be lingering questions about efficacy and safety. My view is that it will not matter so much who is first.

What will mater is where will countries buy their vaccine. I

think the answer to this is fairly clear. Countries will buy first from their own national companies if possible, then after that from ally countries. The US will buy its vaccine not from Russia or China, but from US companies or US allies. We have already see this with President Trump announcing several deals and his top 5 companies (four from USA, one from UK) in Operation Warp Speed.

For investors it probably won't matter who wins the vaccine race, but more who can profit from it. The drug companies with good vaccines and more importantly good connections to wealthy countries (US, Europe, UK) and governments will be the likely financial winners.

While much is already priced in, the likely winners should be Moderna (US deal already for 100m doses), Pfizer Inc., Merck, Johnson and Johnson, and AstraZeneca Plc (which has a manufacturing capacity of 1b doses pa arranged with Serum, plus 100m in China). All have have begun late-stage testing for Covid-19 vaccines with initial results from some of the human trials expected in October/November. So we may start see a western vaccine as soon as November or December, with production scaling up in 2021.