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| Equity Research; C-19 roll-out underway | | ../../../../Downloads/css-logo.png |
| |  | | --- | | Research Report | | Report Date | | 15th February 2021 | | Analyst | | Ravi Lockyer MSc Llb ASCI  Collins Sarri Statham Investments Ltd | | Key Risks to Price Target | | Not applicable  *Please note the risk warnings and disclaimers on the last page of this document.* | |  | | C-19 vaccine roll-out gathers pace  There is high confidencein UK c-19 vaccine deployment over H1 2021. We have hit the 15m target (top four priority groups) for initial vaccinations a day ahead of schedule, (10.4m: 4th February 2021). The UK has started on the 65-70 age group. Furthermore the target to first dose the 50+ age group by May 6th looks achievable.  Source; CSS Investments Ltd  Using recent deployment data (8.9m 30th January) we are running at c. 406k jabs per day using multiple delivery means. Our expectations is deployment will average c. 500k jabs per day over February and March 2021.  Given the delivery capabilities, we expect the entire UK adult population (c.52.5m could all receive the first jab by end June) and the booster jab by the end of August 2021.  The pace of deployment and full immunization could be increased if logistical challenges reduce, or if single dose vaccines (such as J&J) arrive or if the government delays the delivery of the booster jab. What could get in the way?   1. Supply constraints – (unlikely in our view) 2. Reduction in the pace of deployment – (also unlikely) 3. New C-19 variants / variant resistance to C-19 jabs – (this is occurring) 4. Population resistance to receiving the jab (the ludicrous anti-vax movement does not appear to be letting up in its various publicity related efforts).   C-19 vaccines multiply  The global population will have more choice in C-19 vaccines over 2021 than available during Q1 – this will help with the global deployment which in some areas, EU, Latin America has been slow. So far c. 5% of the EU’s adult population has received the first jab compared to c.20% of UK adults.  **AstraZeneca;** the C-19 vaccine has been criticized in the EU, Greece, Switzerland and South Africa – the latter halted the AZN C-19 rollout on the grounds that it was ineffective against the South African C-19 variant. Other countries, Greece, Switzerland have criticized its poor data submissions (no data on over 65s) and not authorized for over 65s. In fact almost half of all EU countries, 11 out of 27) have applied age restrictions (sub 65) to the Astra Zeneca C-19 treatment. Italy, Belgium and Spain have made the restriction larger, to under 55.  **Pfizer- BioNTech**; highly effective (94.5%) C-19 vaccine, recent Israeli data has confirmed its effectiveness amongst a vaccinated population (in a 600k study of symptomatic C-19 cases there was a 94% drop in infections.) The Pfizer C-19 vaccine recently won a further 100m dose order from the US government cementing its position in its home market. Roll-out globally has been slower given the drug’s deep freeze requirements. Pfizer is also supplying 40m doses to the UK.  **Moderna;** the Moderna vaccine was the second C-19 vaccine to receive FDA approval and has an efficacy of 94%, just 14 days after the first jab. Based on evidence so far the treatment is also effective against new variants. Moderna recently won a supplementary 100m dose order from the US government and 5m order from the UK.  **GSK/ Curevac;** objective is to develop a mRNA C-19 vaccine targeting availability in 2022.GSK will also support the manufacture of 100m doses of Curevac first generation C-19 vaccine CVnCoV in 2021 (this is currently in Phase 2b/3 clinincal trials). GSK is liable for €150m in return for exclusive marketing authorization in all countries, except Germany, Austria and Switzerland.  **GSK/ Sanofi;** do not expect an approved C-19 vaccine until post Phase III trial results due in Q3 2021. There is considerable disappointment in GSK/ Sanofi delays especially given GSK’s vaccine expertise. In a recent conference call the GSK board discussed C-19 mainly in the context of the impact on its existing vaccine business of the 14 day period before and after rather than touch on the lack of its C-19 delivery.  **Johnson & Johnson;** this C-19 treatment is a major leap forward, it is single shot i.e. no booster jab – with a 66% effectiveness against moderate to severe C-19 and an 85% effectiveness against severe C-19 after day 28 in phase III trials. J&J is filing for US EUA (emergency use authorization) and expects to meet its 2021 delivery commitments (100m to US government for $10 per shot, 200m to Europe and 100m to developing countries via GAVI, the Vaccine Alliance).  C-19 restrictions / the pecking order  Ahead of the UK government’s roadmap out of lockdown#3 due on the 22nd February the immediate data is important. However it is hard to see the UK government moving quickly to ease C-19 restrictions. The government’s SAGE scientists have said it is not sensible to set out a road map at all right now.  This is due to the fact it will still take until end May at least before the UK adult population gets the first jab. It is also a function of the nagging suspicion that the numbers are only down because of the restrictions, if restrictions are eased the infection rate could rise sharply again, especially if the new variants show a higher resistance to the vaccines.  It is possible that the PM’s commitment to re-open schools on the 8th March might be limited to primary schools. The opening of non-essential retail and what comprises this group is also a guessing game. Recent moves to introduce quarantine measures that deter overseas visitors, along with the very slow EU progress in C-19 vaccine deployment are dampeners to the notion that 2021 will see a quick normalisation. Indeed on the basis of 2021 to date, a ‘new normal’ may be possible in H2 only with 2019 normality i.e. ‘normality’ in 2022.  This begs the question of what does the ‘new normal’ looks like? The parts of the economy that were unhurt, have carried on growing, whilst the parts of the economy that can recover will require an easing of restrictions to do so. Then there is that part of the economy that is permanently damaged and represents lost output, higher structural unemployment and activities that are not coming back.  Current levels of US unemployment remain as bad as the early 1980s. On that point, the true level of UK unemployment is being disguised by the furlough programme hence it is not possible to say now what is structural unemployment.  Using ONS data as a guide, of the 9.9% lost GDP over 2020, at least half of this c. 4.5% is retrievable from parts of the economy that can recover without restrictions. The concern on the last 4.4% is the extent that post C-19, companies have re-appraised their staff commitment, office needs, overseas trips, corporate events etc. This bit mainly represents lost GDP.  There is a view that the leisure sector will rebound strongly on easing C-19 restrictions and its recovery would be at the expense of IT/ software/ home improvements. This purely binary view of the world is simplistic. If we take the view that the UK government will discourage overseas summer holidays then we are still only allowed staycations and local entertainments. Not much of a leisure recovery will be possible.  In terms of international events, and the fate of the Tokyo Olympics (23 July- 8th August 2021) my expectation is this event will happen, with very high C-19 security including a C-19 vaccine passport system. However I recognize the high probability of a disastrous second cancellation, which would be bad for 2021 as a year of events recovery.  What pecking order are we dealing with, who recovers first, in the middle and last?   1. Crude oil is recovering, without an aviation recovery, oil demand has returned to 2019 levels already in a number of countries, India & China for example. The demand picture is starting to look very firm. Oil is back in the driving seat. 2. Transport, bus/rail travel is an early recovery story especially if companies encourage more office working / schools return/ staycations occur/ there is a re-opening of some city centre cultural activities. 3. Non-essential retail shops, pubs & restaurants – broadly high street linked activities. We expect this will be eased in April or before. 4. City centre re-openings possibly in May/ June 5. Theatres, cinemas, museums, exhibitions, sporting events, I expect could be a late May - June/ H2 2021 timetable. 6. Corporate events – dependent on Tokyo/ likely H2 2021 normalisation 7. Aviation – the multi-billion dollar question is the fate of the 2021 summer holiday – again this is too close to call at the moment. But regardless of summer gallivanting around the world, the fragile state of the industry and rapidly rising debt load makes evaluating the equity very difficult. Will tourism happen with the same vigour as before? Arguably not. Airlines regardless of their complexion might not have viable businesses until 2022. 8. Cruises – should cruising be last or second last? This is somewhat academic, but I suggest the damage sustained by the cruise lines likewise make them weak options and late recoveries.   As such the investing priorities, oil majors, rail & bus companies, pubs and restaurants seem the right mix with ample further upside if the existing trajectory holds. On everything else, the inherent fragility of these sectors make them far less appealing.  So far 2021 is looking better than 2020, there is an exit route out of C-19 but this must be traversed by many countries quickly, it is an uneven path that will take all of H1 2021. | |
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