

Eco Animal Health – QuickView

12 August 2009

Event	Management present
Management meeting	Peter Lawrence, chairman

Investment summary: Poised for good growth

The group has a broad and unique portfolio of leading proprietary veterinary drugs that are poised to enter new markets following the recent securing of registrations (although some launch delays are possible). These positive market developments should compensate for concerns about the group's cash generation capabilities.

Current year starting well, but cash outflow possible

The current year has started well and the drivers for revenue growth will be sales from Aivlosin, which has marketing authorisations in Europe for poultry and swine. Increases in EBITDA and PBT were highly dependent upon the granting of new marketing authorisations and product launches. With over 600 licences granted, the US will be the next big driver. FDA inspection of the manufacturing plant has been completed and forms part of the final stages of the US approval process. At March 2009, net cash was £2.8m. We believe that the group may again see a cash outflow this year depending upon the scale of drug registration costs.

Strategic developments: EU regulatory hurdles cleared

Growth will be achieved from the recent granting of European market authorisations as well as from marketing authorisations in the US (difficult to predict, but currently expected at the end of the year). Eco is targeting a trebling of global market share to 10% by 2012. We believe that the group is likely to seek funds to help develop the US distribution and establish a Chinese joint venture to strengthen the Aivlosin supply route. The group has set up a world class manufacturing site in China (ECO Biok), to bring out-sourced manufacture in-house. This could achieve a supply cost saving of around 15% per annum, equivalent to around £2.1m by 2012.

Valuation: Reflects current uncertainties

The valuation is sensitive to the uncertain development of products and markets and not helped by there being few peers. As a major acquirer could capture all of the distribution margin through cutting overlap in the marketing network, the takeout multiple for Eco could potentially be higher than current levels (even including a takeover premium).

Consensus estimates

Year End	Revenue (£m)	PBT (£m)	EPS (p)	DPS (p)	P/E (x)	Yield (%)
03/08	16.5	1.7	0.0	7.2	N/A	4.8
03/09	19.3	3.8	1.3	7.2	115.4	4.8
03/10e	22.5	4.9	6.8	7.2	22.1	4.8
03/11e	28.5	6.7	9.8	7.2	15.3	4.8

Price 150p
Market Cap £70m

Share price graph



Share details

Code EAH
Listing AIM
Sector Pharmaceuticals & Biotechnology
Shares in issue 46.4m

Business

Eco Animal Health is engaged in the marketing and registration of animal feed and animal health products, primarily in the food animal products market. Aivlosin, a patented macrolide antibiotic, accounts for over 50% of sales. Europe represents 30% and the RoW 70% of group sales.

Bull

- Leader in the veterinary pharmaceutical market
- Major drug registration programme underway
- Products treat economically important diseases

Bear

- Profit growth is dependent on speed of penetration with new distributors
- Delays to regulatory procedures in Europe and the US
- Cash need to develop US distribution and Far East acquisitions

Analyst

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