

Trading update: headwinds in China

1st October 2024

In a Trading Update for the six months to 30 September 2024, ECO Animal Health reports reduced demand in China and SE Asia markets for its proprietary Aivlosin[®] porcine treatment, reflecting lower incidence of disease and some customer churn. The Group expects the customary H2 earnings weighting (H2 FY24: 57.5%), whilst Aivlosin[®] continues to gain market share in India and Brazil. However, the combination of demand, foreign exchange and other factors across the full range of EAH's global market presence leads the company at this stage to assess that revenue for the full year should be below market estimates: a consensus indicated of £92.6m and (adj.) EBITDA of £8.2m. Consequently the Group expects FY25 (adj.) EBITDA to be close to FY23 levels (£7.2m).

At this stage we have adjusted our FY25 outlook accordingly. Our FY25 revenue estimate is reduced by 7%, and (adj.) EBITDA by 10%. We remain prudent but will review further as H2 develops.

Aivlosin[®]: reflects global trends

We estimate that Aivlosin[®] typically comprises c.90% of total revenue, with an overall revenue contribution in FY24 of 27.6% from China and Japan and c.40% of (adj.) EBITDA before centralised costs including R&D spend. As a mature product with an established distribution base from the Far East to Europe and the Americas, Aivlosin[®] has remained highly cash-generative; the FY24 cash balance was £22.4m. The Group notes grounds for optimism for H2 performance with improving pork prices in China, strong order books and continued demand in N. America, Brazil and India, combined with regulatory approval for marketing of Aivlosin[®] in Paraguay, a market of 1.4m pigs, 80% farmed intensively.

Well-funded R&D and product commercialisation programme in place

The Group has outlined in detail the range of opportunities presented by its investment in new treatments, notably six underway: ECOVAXXIN[®]MG, ECOVAXXIN[®]MS, ECOVAXXIN[®] PCV-2 Mh, PRRS-V Mab, NE Mab, and anti-parasitics. The area of novel monoclonal solutions in particular has the potential to yield significant results.

Conclusion: transition underway

As EAH has outlined in the past (November 2023 Capital Markets event), the Group has a well-defined and well-funded R&D and product commercialisation programme. By contrast its mainstay product, Aivlosin[®], has a market position which places it at the focus of market demand vagaries, as H1 24 illustrates as the process of transition develops.

Company Data

EPIC	EAH
Price (last close)	96p
52 weeks Hi/Lo	135p/82p
Market cap	£65m
Proforma net debt (cash)	£(22.4)m

Share Price, p



Source: ADVFN

Description

Founded in 1995, ECO Animal Health specialises in the development, registration and distribution of pharmaceutical products for animal health markets worldwide, notably disease, bacterial infection and parasitic prevention for pigs, cattle, sheep and poultry. The Group addresses markets in China and the Far East, SE Asia, North America, Latin America and Europe, and derives c.90% of revenue from its enteric and respiratory antibiotic Aivlosin[®], for the treatment of enteric and respiratory diseases in pigs and poultry.

Forecasts to FY26

Yr to 31 March (£m)	2022	2023	2024	2025E	2026E
Revenue	82.2	85.3	89.4	84.3	85.3
EBITDA (adj.)	5.4	7.2	8.0	7.2	7.9
Pre-Tax Profit (adj.)	3.8	4.8	4.0	4.0	4.3
EPS (rptd. basic)	(1.01)	1.49	1.55	0.96	1.34
EPS (adj. dil. p)	2.47	1.66	2.32	1.08	1.47
Net debt (cash)	(14.3)	(21.7)	(22.4)	(18.3)	(16.8)
EV/EBITDA	7.9x	5.9x	5.3x	5.9x	5.4x
EV/Rev	0.52x	0.50x	0.48x	0.51x	0.50x

Source: Company data, Equity Development estimates. ¹ Net cash is pre-IFRS 16.

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Summary financial data

P&L						
Year to 31 March (£m)	FY21	FY22	FY23	FY24	FY25E	FY26E
China & Japan	58.9	28.4	26.4	24.7	21.0	21.2
N America	13.9	16.4	15.2	18.5	18.7	18.9
S & SE Asia	9.1	11.8	16.8	17.4	15.7	15.9
LatAm	14.3	15.8	18.1	19.9	20.1	20.3
Europe	6.6	6.4	6.1	6.5	6.5	6.6
RoW/UK	2.9	3.4	2.8	2.5	2.4	2.4
Revenue	105.6	82.2	85.3	89.4	84.3	85.3
Gross	52.7	35.1	38.4	37.7	33.7	38.0
<i>Margin</i>	49.9%	42.7%	45.0%	42.1%	40.0%	44.5%
COGS	(52.9)	(47.1)	(46.9)	(51.7)	(50.6)	(47.3)
Other income	0.3	0.1	0.4	0.1	0.0	0.0
R&D	(8.1)	(7.6)	(5.9)	(4.2)	(4.0)	(5.0)
Admin	(25.5)	(24.1)	(27.9)	(29.4)	(25.5)	(28.0)
Impairment/Other	0.0	(2.1)	0.0	(0.7)	0.0	0.0
Sum Op-ex	(33.3)	(33.7)	(33.4)	(34.1)	(29.5)	(33.4)
Share-based payments	(0.1)	(0.3)	(0.4)	(0.4)	(0.4)	(0.4)
Forex	2.2	(1.0)	(0.5)	0.6	0.0	0.0
EBIT (rptd.)	19.4	1.4	4.9	3.5	4.3	4.6
EBIT (adj.)	19.6	3.9	5.4	4.6	4.7	5.0
<i>Margin</i>	18.5%	4.7%	6.3%	5.1%	5.5%	5.8%
Amortisation	(0.9)	(1.1)	(1.1)	(1.2)	(1.2)	(1.4)
Amortisation RoU	(0.4)	(0.4)	(0.5)	(0.7)	(0.7)	(0.7)
Depreciation	(0.4)	(0.5)	(0.8)	(1.0)	(0.7)	(0.8)
EBITDA (rptd.)	23.4	2.4	6.8	6.9	6.8	7.5
EBITDA (adj.)	23.5	5.4	7.2	8.0	7.2	7.9
<i>Margin</i>	22.3%	6.6%	8.5%	9.0%	8.5%	9.2%
Financial income	0.1	0.2	0.1	0.2	0.1	0.1
Financial expense	(0.3)	(0.3)	(0.7)	(0.8)	(0.8)	(0.8)
Associate	0.0	0.0	0.0	0.1	0.1	0.1
PBT (rptd.)	19.3	1.4	4.4	3.0	3.6	4.0
PBT (adj.)	19.4	3.8	4.8	4.0	4.0	4.3
Tax	(3.5)	(2.1)	(1.3)	(1.0)	(1.0)	(1.0)
PAT (rptd.)	15.8	(0.7)	3.1	2.0	2.7	2.9
PAT (adj.)	16.0	1.7	3.5	3.1	3.1	3.3
Basic wtd. Av. shares (m)	67.6	67.7	67.7	67.7	67.7	67.7
Diluted wtd. av. shares (m)	67.6	67.7	68.6	69.1	69.1	69.1
EPS rptd. basic (p)	10.86	(1.01)	1.49	1.55	0.96	1.34
EPS rptd. dil. (p)	10.85	(1.01)	1.47	1.52	0.94	1.31
EPS adj. basic (p)	10.94	2.47	1.68	2.37	1.11	1.50
EPS adj. dil. (p)	10.94	2.47	1.66	2.32	1.08	1.47

Source: Company data, Equity Development estimates.

Summary financial data

Cashflow						
Year to 31 March (£m)	FY21	FY22	FY23	FY24	FY25E	FY26E
PBT (rptd.)	19.3	1.4	4.4	3.0	3.6	4.0
Finance (net)	0.2	0.1	0.6	0.6	0.7	0.7
Forex	0.6	(1.0)	(0.5)	0.6	0.0	0.0
Amortisation	0.9	1.1	1.1	1.2	1.2	1.4
Amortisation RoU	0.4	0.4	0.5	0.7	0.7	0.7
Depreciation	0.4	0.5	0.8	1.0	0.7	0.8
Impairment/Other	0.0	2.1	0.0	0.1	0.0	0.0
Associate	(0.0)	(0.0)	(0.0)	(0.1)	(0.1)	(0.1)
Share-based payments	0.1	0.3	0.4	0.4	0.4	0.4
Other	0.0	0.1	(0.0)	0.3	0.0	0.0
Operating Cash Flow	21.9	4.9	7.2	7.7	7.2	7.9
Working capital						
(Increase)/Decrease inventories	(3.7)	(8.6)	7.8	4.7	(6.1)	2.1
(Increase)/Decrease in receivables	(4.0)	7.6	(0.7)	(5.0)	6.8	2.0
Increase/(Decrease) in payables	0.8	(2.9)	2.7	2.5	(1.0)	0.2
Provisions	0.9	1.4	1.4	0.6	0.5	0.5
Movement in working capital	(6.0)	(2.4)	11.2	2.8	0.1	4.8
Cash generated by operations	15.8	2.5	18.4	10.5	7.3	12.7
Interest paid	(0.1)	(0.1)	(0.5)	(0.5)	(0.5)	0.0
Tax (paid)/received	(3.8)	(3.0)	(2.1)	(0.6)	(1.0)	(1.0)
Net cash from operations	12.0	(0.5)	15.9	9.4	5.9	11.7
Investing activities						
PPE	(0.2)	(1.6)	(3.6)	(0.5)	(0.6)	(0.6)
Sale of PPE	0.0	0.0	0.0	1.1	0.0	0.0
Capitalised R&D	(0.9)	(1.3)	(2.4)	(4.1)	(5.0)	(6.3)
Finance	0.1	0.2	0.1	0.2	0.2	0.2
Net cash used in investing	(0.9)	(2.7)	(5.9)	(3.4)	(5.4)	(6.7)
Net OpFCF	11.0	(3.2)	10.0	6.0	0.5	5.0
Financing activities						
Shares issued	0.4	0.1	0.0	0.0	0.0	0.0
Interest on leases	(0.1)	(0.1)	(0.2)	(0.3)	(0.1)	(0.1)
Leases	(0.4)	(0.4)	(0.4)	(0.6)	(0.4)	(0.4)
Dividends	(0.6)	(2.9)	(1.8)	(2.8)	(4.0)	(6.0)
Net cash from financing	(0.7)	(3.3)	(2.4)	(3.7)	(4.5)	(6.5)
Net increase in cash / equivalents	10.4	(6.5)	7.6	2.3	(4.0)	(1.5)
Cash at beginning of year	9.8	19.5	14.3	21.7	22.4	18.3
Forex	(0.7)	1.3	(0.3)	(1.6)	0.0	0.0
Cash at year end	19.5	14.3	21.7	22.4	18.3	16.8

Source: Company data, Equity Development estimates.

Summary financial data

Balance sheet						
Year to 31 March (£m)	FY21	FY22	FY23	FY24	FY25E	FY26E
Fixed Assets						
Intangible Assets Net	36.1	34.3	35.6	38.4	42.2	47.0
PPE net	2.2	3.5	6.1	4.8	4.7	4.5
RoU Assets Net	1.4	1.8	4.3	3.7	7.5	13.4
Property Investments	0.3	0.2	0.0	0.0	0.0	0.0
Investments	0.2	0.2	0.3	0.3	0.3	0.3
Deferred Tax	0.3	0.5	0.6	1.4	1.4	1.4
Sum Fixed Assets	40.4	40.5	46.8	48.5	56.1	66.5
Current Assets						
Inventories	20.5	30.1	22.4	17.0	23.1	21.0
Trade receivables	32.5	26.0	26.9	32.2	25.4	23.4
Tax assets, other	4.0	2.7	3.6	3.2	0.0	0.0
Cash, Equivalents	19.5	14.3	21.7	22.4	18.3	16.8
Sum Current Assets	76.5	73.1	74.5	74.7	66.9	61.2
Total Assets	116.9	113.6	121.3	123.3	122.9	127.8
Current Liabilities						
Trade payables	(14.5)	(13.0)	(14.5)	(17.4)	(16.4)	(16.6)
Provisions	(1.8)	(3.9)	(5.2)	(5.9)	(5.9)	(5.9)
Tax, Other	(3.8)	(0.9)	(2.4)	(2.0)	(2.0)	(2.0)
Dividends	(0.1)	(0.1)	(0.1)	(0.1)	0.0	0.0
Sum Current Liabilities	(20.2)	(17.7)	(22.2)	(25.2)	(24.2)	(24.4)
Total Assets less Current Liabilities	96.7	95.9	99.1	98.0	98.7	103.4
Long-term Liabilities						
Deferred tax	(0.2)	0.0	0.0	(1.3)	(1.3)	(1.3)
Leases	(1.2)	(1.5)	(3.6)	(3.4)	(3.4)	(3.4)
Sum Long-term liabilities	(1.4)	(1.5)	(3.6)	(4.7)	(4.7)	(4.7)
Total liabilities	(21.6)	(19.3)	(25.8)	(29.9)	(28.9)	(29.1)
Net Assets	95.3	94.3	95.6	93.4	94.1	98.7
Capital & Reserves						
Share Capital	3.4	3.4	3.4	3.4	3.4	3.4
Share Premium	63.3	63.3	63.3	63.3	61.0	62.7
Reserves	1.9	3.0	2.6	1.6	1.6	1.6
Retained earnings	13.4	12.4	13.9	15.8	18.5	21.4
Non-controlling interests	13.4	12.3	12.3	9.7	9.7	9.7
Equity	95.3	94.3	95.6	93.4	94.1	98.7
Net debt / (cash) IFRS16	(18.3)	(12.8)	(18.1)	(19.0)	(14.9)	(13.4)
Net debt / (cash) excl leases	(19.5)	(14.3)	(21.7)	(22.4)	(18.3)	(16.8)

Source: Company data, Equity Development estimates.



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