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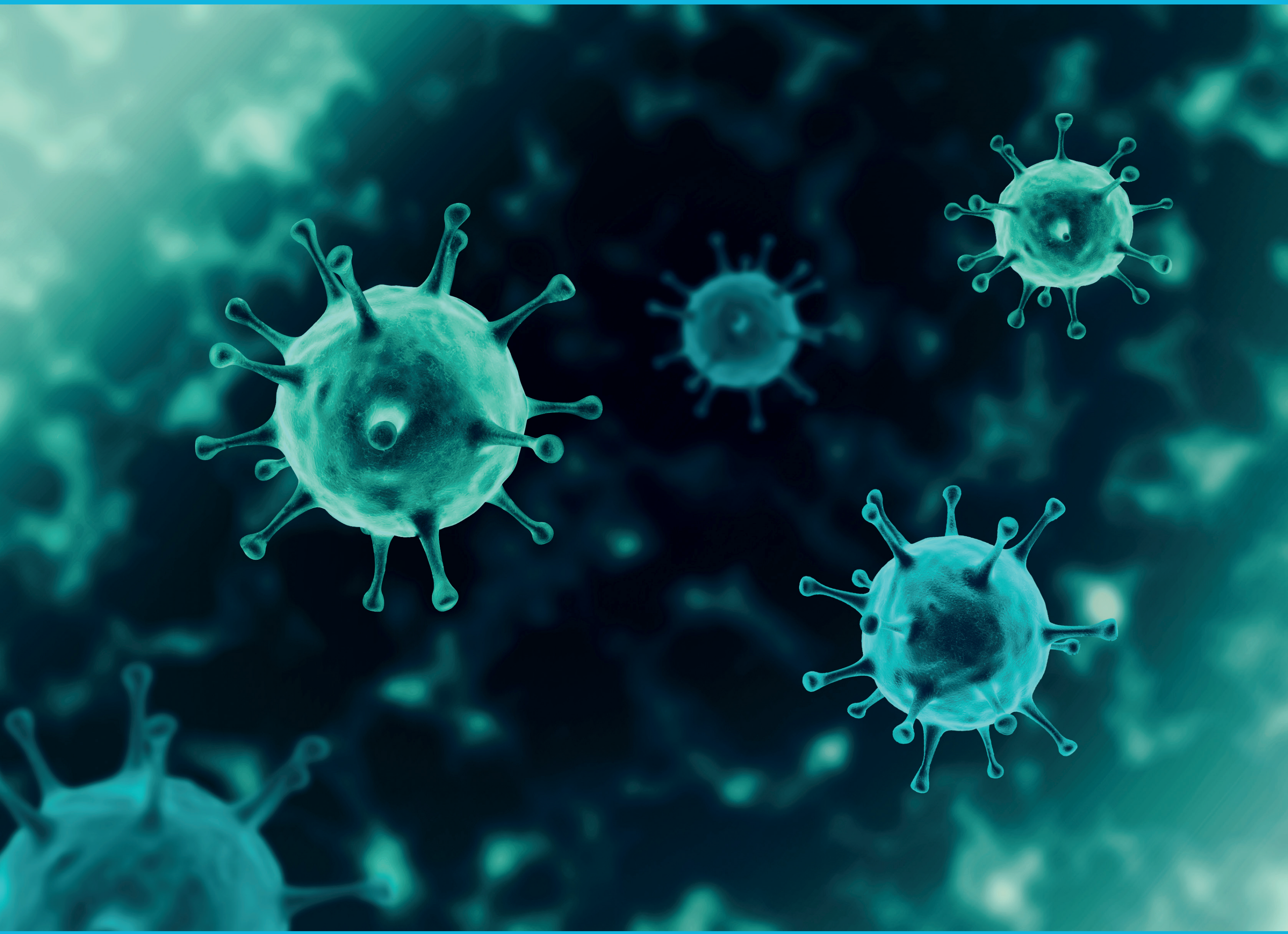

Synairgen

The Sudden Rise to Fame

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AIM listed respiratory research and development (R&D) company, Synairgen, suddenly found itself in the limelight a few days ago, when it reported favourable results from Covid-19 treatment trials. There are clear positives to Synairgen as a company, including its robust credentials and potential outcomes. However, there are risks as well, including the fact that its current drug programmes may not succeed. In this context, is Synairgen a good share to buy because of its prospects or do the risks outweigh the positives?

Company Profile: Long-term respiratory R&D begins to payoff

Background

It differentiates its research through its BioBank technology platform, which platform uses human samples of blood, sputum, nasal lavage, biopsies and particular cell types obtained from volunteers with pre-existing respiratory conditions. This is distinct from respiratory research that uses animal models, which can be insufficient in replicating the requisite conditions required for progressing respiratory research.

Drug programmes underway

At present, there are three drug development programmes with which Synairgen is associated:

1. Covid-19: It's developing a drug, SNG001, for the treatment of Covid-19 through the use of Interferon Beta (IFN-β). IFN-β is a naturally occurring protein that plays a role in the immune system's functioning. Its production is suppressed by coronaviruses, which compromises immune responses. To counter this, SNG001 has been developed as formulation of IFN-β, which can be administered through nebulisation to either treat or prevent respiratory illnesses.

2. COPD: SNG001 was tested for COPD patients two years ago in 2018, with positive initial results. In light of Covid-19, phase two of the trial for COPD has been paused to minimise risk of further infection among vulnerable patients.

3. Fibrosis: Synairgen collaborated with Australia's Pharmaxis to produce inhibitors for the enzyme, Lysyl Oxidase-like protein 2 (LOXL2). LOXL2 plays a role in stiffening of scar tissue by linking collagen fibres. However, too much linking results in fibrosis. This treatment targets this excessive LOXL2 production to fight fibrosis. Pharmaxis took on full operational responsibility for the treatment in 2017, while Synairgen retained an interest in it.

Financials

For the year ending December 31, 2019; Synairgen showed no revenues, repeating the trend from 2016. In the past five years, its revenues have fluctuated sharply. Its highest revenues were in 2017 of £5mn payable by its collaborator Pharmaxis on fibrosis research, on change in terms of agreement.

In 2018, it did fee related work, which also brought in a modest revenue stream of £0.1mn. This was similar to 2015, when it earned £0.03mn from a scientific fee for service work for AstraZeneca, which is also a FTSE 100 stock. This followed from an exclusive license agreement it had entered into earlier with the pharmaceutical company for £4.3mn.

Revenue sources over the years		
Year	**Revenue (£mn)**	**Source**
2019	--	N/A
2018	0.1	Fee for service work on LOXL2 by Pharmaxis
2017	5	Upfront payment by Pharmaxis on change in agreement with Synairgen
2016	--	N/A
2015	0.03	Scientific fee for service work for AstraZeneca

In line with its revenue fluctuations, it's not made a steady profit either. It reported net income in only 2016, when it got a bump-up from its changed agreements with Pharmaxis of £1.8mn. In 2019, it reported a loss of £3.9mn as its ongoing research and development expenditure continued.

Share price trends

2020 has been a standout year for Synairgen's share price. It has averaged at 21.6p for the past five years, but in 2020, it averages 38.6p so far or 76% higher. While the broader stock markets crashed, Synairgen's efforts to develop a Covid-19 treatment, have put it in the spotlight.

It showed a healthy increase March onwards, but a few days ago Synairgen's share price truly skyrocketed. It rose 420% in a single day when its Covid-19 treatment showed promise. Though the latest share price change is massive, Synairgen share price is no stranger to volatility. As a small-cap stock, with a market capitalisation of £284mn, it has seen double digit fluctuations in share price over a day even in the past. On the other hand, there have been days without change in share price as well.

Opportunities: Poised to grow by meeting healthcare requirements

Synairgen has a strong background, as evident from its team and its collaboration with leading pharmaceutical companies like AstraZeneca. Its drug programmes also hold promise, since they address critical and growing healthcare challenges.

It is possible that as these programmes fructify, Synairgen will become a financially steadier ship. So far, the progress is encouraging. SNG001 for Covid-19 has shown potential in the second phase of its clinical drug trials for Covid-19. Patients who consumed the drug were 79% less likely of becoming severely ill with Covid-19 compared to those on a placebo. Further, they were twice as likely to recover as well. In the next few months, Synairgen can come closer to obtaining regulatory approval too.

Next, even though its COPD treatment is halted right now, if it goes well over time, Synairgen could meet a growing healthcare need. According to research and consulting firm GlobalData, the COPD treatment market across 8 leading economies including the US, France, Germany, the UK and Japan, is expected to grow at a compounded annual growth rate (CAGR) of 3.7% to $14.1bn by 2025.

Its fibrosis treatment, for which Pharmaxis is carrying out the operational work, will earn licensing receipts of at least 17% for Synairgen. This too, could be an important healthcare segment for the company, with one-third of natural deaths globally, caused by fibrosis and the resulting organ failure from it.

Risks: Drug programmes are still in the pipeline

The one big risk for Synairgen is that all its drug programmes are in the pipeline. In other words, they risk falling through. As an instance, some in the scientific community have said that SNG001 for Covid-19 needs to be tested far more widely, which may well present different results from the ones observed so far.

Even if the programmes succeed, how Synairgen commercialises them and its impact on the topline remains to be seen. A number of companies are engaged in Covid-19 related research at present, including big multinationals like AstraZeneca and GlaxoSmithKline. This means that the drug can have tough competition to contend with down the line, even if there's a large market to address.

Further, in the past, Synairgen's earned revenues through sale of its research for further development to other companies, once the research has shown potential. As a result, its revenue stream has been chunky and unpredictable. Without enough parallel programmes that ensure sustained revenues, products that have already hit the market or additional revenue sources, it is hard to see how it will grow financially over time.

Outlook on the Synairgen share

Long-term R&D efforts have put Synairgen in a unique position to battle the Covid-19 pandemic. However, it hasn't yet succeeded for sure, even though it is promising. In the next few months it should show further progress. This will give an indication of what's next for Synairgen. Other programmes could take longer to unfold.

In the meantime, the Synairgen share price increased 5x in a day a few days ago. With this sharp rise, the risks to investing in the share have grown especially since it is a volatile stock in any case. Once there's more clarity on the next steps for the Covid-19 drug, it should be revisited, even if the price has run up further.

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