

Datwyler's Business With COVID Vaccinations

The company supplies manufacturers of COVID vaccinations with rubber plugs and aluminum sealing caps. The business is thriving.

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Those who will be vaccinated against COVID-19 in the coming months will most likely encounter a tiny product of Datwyler. The company that is headquartered in Uri, Switzerland, and has production facilities all around the globe produces, among other things, the tiny rubber and aluminum parts that seal medicine vials or prevent the vaccine from leaking out of the syringe.

Datwyler supplies the manufacturers of COVID vaccines with these products. They will not reveal whether their customers include AstraZeneca, Moderna, or BioNTech and Pfizer. «Unfortunately, I cannot give the names,» Datwyler's CEO, Dirk Lambrecht, told FuW. But there are cooperations with «the leading pharmaceutical companies and their contract partners.» For some of those, Datwyler is the main supplier, for others backup supplier.

Ever since the vaccination campaign started, production is running on full steam: «The COVID vaccinations result in vast demand and accelerated growth of turnover and margins,» Lambrecht says. But COVID-19 is not the only reason for the growth of Datwyler's healthcare business, that is responsible for roughly 40 % of the revenue. Demographic aging and improved healthcare in emerging countries create additional demand. COVID-19 is responsible for «a significant portion» of the division's revenue growth though, according to Lambrecht.

Stock Price Went Through the Roof

Ever since it transpired that Datwyler would benefit from the vaccination campaign, the stock price went through the roof: Over the past six months it went up by almost 40 %. How much longer can that continue? When will the peak in demand for Datwyler's products be reached? Lambrecht thinks that is difficult to estimate: «It depends on the course of the pandemic and what countries our partners will find usage in.» Another influencing factor is the speed with which manufacturers will be able to increase their production. That continues to be the limiting factor. Datwyler themselves are so far able to keep up: «We are able to produce according to our customers' needs. There are no shortages.»

Currently, COVID vaccines are still delivered in vials, for which Datwyler is able to provide rubber stoppers and aluminum sealing caps. Starting from 2022, vaccines in prefilled syringes should increasingly be introduced to the market. For that, too, Datwyler has components to offer, namely needle protection shields and rubber plungers to push the medicine forwards in the syringe.



Datwyler provides rubber stoppers and aluminum sealing caps for the vials containing the COVID vaccines.

But what happens once the vaccination campaign comes to an end? Will Datwyler then face a collapse in demand and low utilization of production capacities? Lambrecht does not see this danger. Firstly, Datwyler did not develop COVID-specific products. They are the same that are normally for sale as well. Secondly, it is true that investments were approved in summer and fall to increase production output. «We will lastingly need the capacities we are building up though.»

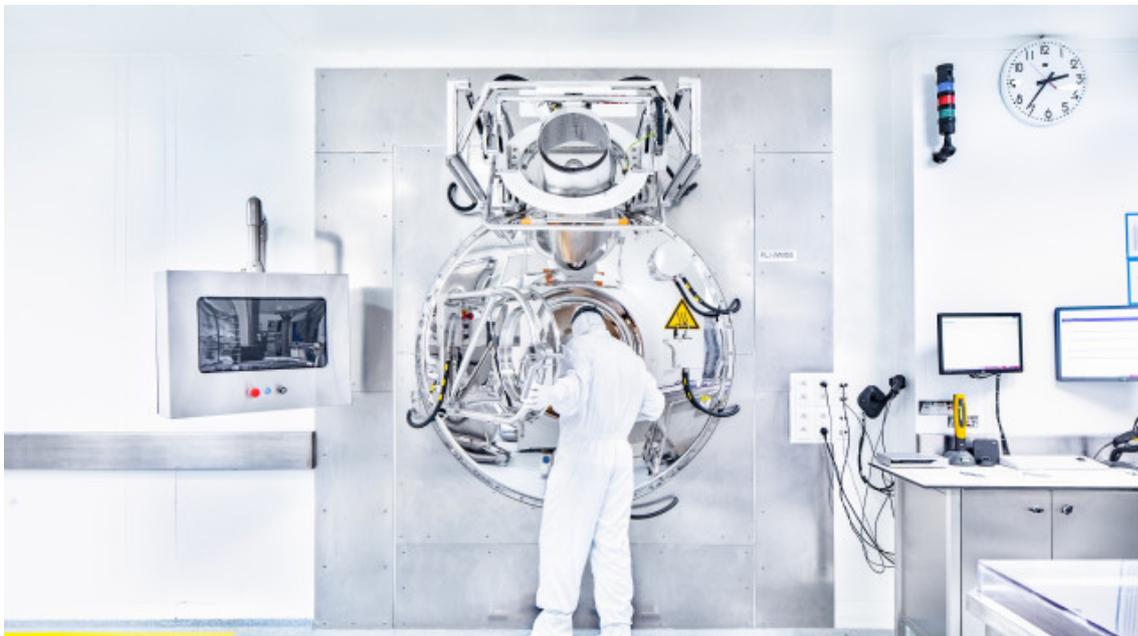
He thinks the pandemic might turn into an endemicity, meaning a disease that continues to have occasional regional outbreaks while the number of infected people remains relatively constant. Vaccinations would then need to be refreshed periodically, as is the case with the flu. Should Corona vanish, however, the structural growth of the healthcare division should ensure a continuously good capacity utilization: «The chance of us suddenly having excess capacities is very low,» Lambrecht says.

Challenging Bulk Business

Datwyler's healthcare business is bulk business. The company produces more than 18 billion small parts for the pharmaceutical industry every year. Every single one of them has to meet high standards: The components are required to be free from particles and other impurities. That is ensured by a highly automated production under clean room conditions and a special washing process. Initial investments for this kind of production are high. Accordingly, the number of competitors is low. Datwyler is the number two behind the US company West Pharmaceutical. Besides those, there are Aptar Stelmi, an affiliate of the US company Aptar, as well as one or two Chinese suppliers.

Despite the sharp rise of Datwyler's stock price, competitor West Pharmaceutical in 2021 with a P/E of 46 continues to be significantly more expensive (Datwyler: 35). However, they produce components for the pharmaceutical industry exclusively, whereas Datwyler contains several lines of business with lower value creation, such as an automobile division. That detracts from the rating.

The healthcare business with its strong growth rate should have an increasing impact on Datwyler though—along with the division Food & Beverage that also shows significant growth and produces coffee capsules for Nespresso. Thus Datwyler's rating could further narrow the gap to West Pharmaceutical. In the long run, the shares show potential. For the moment though, we still view the rating as rather high for an entry.



Datwyler produces the components for the pharmaceutical industry under clean room conditions and subjects them to a special washing process.