

The New Criterion: will the listed sanitiser stocks clean up – or clean out – investors?

TIM BOREHAM 22 April 2020

Who said capitalism was dead in the new world order of prolific government handouts? The profit motive is at least alive and kicking in the sexed-up sanitiser sector, as both new and established participants grab on to what's hopefully a once-in-a-lifetime opportunity.

For consumers, it's a case of "you can't be serious" as they scour largely empty shelves for the prophylactic substances. Go online and expect to pay \$30 (plus postage) for a small 250 millilitre bottle, or \$1300 for a 24 pack of 500 bottles.

Investors would be well advised not to check in their scepticism at the door, either, or they risk being 'cleaned out' at inflated valuations.

Behind the alluring brand names, most of the products consist of at least 70 per cent alcohol (such as ethanol), with some extender liquids and nice fragrances thrown in.

The cost of 11-12c/ml, by the way compares with 6c/ml for the cheapest bottle of vodka at Dan Murphys. But don't get any ideas: the 37 per cent alcohol content isn't enough to do the job - beyond making isolation more bearable of course.

Meanwhile, distillers including Bundaberg Rum and Beenleigh Rum are recalibrating production lines to sanitisers. The country's leading ethanol producer, the private Manildra Group, has also cranked up output of the core ingredient.

By now we've all heard the health experts warning that soap and water is just as effective if not better. But the truth is we don't walk around with a tap and a sink, while a squirt of sanitiser is more convenient within the household as well.

There's little doubt that sanitisers are walking off the shelves, which brings us to the burgeoning grouping of ASX companies which we'll dub the Coronavirus Cleanliness Cluster.

Established Kiwi-based hygiene house **Zoono (ZNO)** took the early running when it proclaimed that its Z-71 Microbe Shield was proven to kill 99.99 per cent of on surface coronaviruses.

According to Zoono, the Z-71 Microbe Shield is a “unique antimicrobial molecule that bonds to any surface and kills pathogens including bacteria, viruses, algae, fungi and mould.”

Stretching the accuracy claim even further, **Aeris Environment (AEI)** notes that “independent tests” show its “dual active biocide” Aeris Active is “99.999 per cent” active against the bug – after only 60 seconds’ exposure.

Aeris Active has also been accredited by bodies including Australia’s Therapeutic Goods Administration and Singapore’s National Environmental Agency.

Fruit juice maker **Food Revolution (FOD)** is also squeezing the COVID-19 theme, having converted part of its outer Melbourne factory to hand sanitisers and ethanol-based disinfectants.

Following the pandemic-enforced closure of its nine beauty spas, Wellness and Beauty Solutions (WNB) in mid March said it would launch MICRO19, an antibacterial hand and surface range with pleasant peach, cucumber and lavender aromas.

Chemist Warehouse has placed its first orders worth \$400,000.

Natural skin care outfit **Skin Elements Limited (SKN)** said it had entered a binding agreement to launch the alcohol-free Invisi Shield, a “multi-purpose anti-microbial sanitiser which is proven effective for a broad spectrum of pathogens.”

The compact is with **Holista Colltech (HCT)**, which will provide the plant-based active ingredient called Path-Away Invisi Shield’s other COVID-19 busting ingredients include olive leaf, echinacea, manuka honey, Kakadu plum, papaya and thyme.

Invisi Shield's plant based formulation does not require TGA approval, while Path-Away is 99.99 per cent effective against feline coronavirus, a COVID-19 surrogate.

The product is expected to be available in 10,000 plus local and NZ outlets this month, ahead of a global launch.

And just as we thought the curve had flattened on the growth of the ASX-listed hygiene hopefuls, digital influencer **Crowd Media (CM8)** this week forged a deal with British organic cleaning products house Kinn Living to sell Kinn's sanitisers in Europe.

For shareholders, it's a case of cleanliness being godliness as the cash rolls in.

Quick-off-the-mark Zoono disclosed March quarter revenue of \$NZ15.7 million (\$14.8m), compared with \$NZ1.7m for the whole of the first half. Reflecting the chunky margins, the cash balance more than doubled to \$NZ5.7m.

Food Revolution says it has received \$3.8m of hand sanitiser orders in March alone. Put in context, the company has guided to full-year revenue of \$40m, including \$22m in the second (current) half.

An established provider of green (non toxic) treatments for mould, bacterial growth, corrosion and hygiene, Aeris said its revenues for the 2019-20 year were "trending" to a record \$12m. In the first (December) half the company posted a \$1.3m loss on revenue of \$3.27m.

Not wasting a crisis, the debt-free Aeris effortlessly has raised \$12m in a placement at 43c a share, a 14 per cent discount on the prevailing price.

For Skin Elements, sanitisers are a welcome addition to its repertoire which includes Soleo Organics sunscreens, the pawpaw based Papaya Activs skincare range and Elizabeth Jane Natural Cosmetics.

In its 2018-19 full year results the company copped a 'going concern' qualification from its auditor BDO, which queried the \$8.99m carrying value of its intangible assets.

The company also reported cash of \$116,000 and \$706,000 of current liabilities, but last month the company managed to raise \$1m at 1c a share.

Meanwhile Holista Colltech reported a \$571,000 loss in calendar 2019, on revenue of \$7.2m. The company dabbles in dietary supplements, food ingredients and ovine (sheep) collagen products.

As could be expected, the share valuations of the Corona Cleanliness Cluster have zoomed since they doused their corporate paws in sanitiser. Skin Elements have soared sevenfold from the 1c death zone, while Zoono and Aeris Environment are worth a substantive \$300m and \$145m respectively.

With the COVID-19 linked revenues only just starting to flow in, it will take some weeks before we can know whether the valuation spikes are justified.

We urge caution: the Chinese-focused **Eagle Health Holdings (EHH)** has a deal with Zoono to distribute the latter's sanitisers, but last week Eagle pulled its 12c a share dividend payable on April 30.

A moot point is what happens when the COVID-19 fears abate: do we return to our grubby old ways, or have we cleaned up our act permanently?

Crowd Media CEO Domenic Carosa says: "whilst we are interested in exploiting immediate opportunities ... our view is that after the coronavirus pandemic subsides, the awareness of the importance of surface, laundry and hand hygiene will endure."

Still, there's the strong possibility of a temporary glut, at least until the 'swing' producers such as the distillers return to their usual activities.

In a report on the sector, Goldstein Research estimates the global hand sanitiser will hit \$US5.08 billion by 2025 and has been growing at a compound annual rate of 11.7 per cent.

The 879 page report, by the way, costs \$US8000 (\$12,500) so evidently there's more than one way of making a killing on hand sanitisers.

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