

Here's a Key Player in Covid Vaccines Whose Shares You Can't Trade—Yet

By [Leslie P. Norton](#) April 26, 2021 8:52 am ET



A technician working in a lab at Sinovac Biotech in Beijing. Kevin Frayer/Getty Images

Sinovac Biotech of China is playing an important role in the fight against Covid-19. Its coronavirus vaccine, CoronaVac, is widely used by many developing nations.

Yet investors in Sinovac are not participating in the bull run that has lifted the shares of other Covid vaccine makers like [Moderna](#) (ticker: MRNA), [Pfizer](#) (PFE), and [AstraZeneca](#) (AZN).

That's because shares of Sinovac (SVA) have been halted for trading on the Nasdaq since February 2019. The shares are traded only in the U.S., and they have been mired in a legal dispute.

"We've absolutely been trapped in the position," says Michael Borgen, the chief investment officer of Sapphire Star Capital, a Redmond, Wash. investment manager that subadvises small-cap accounts for Navellier & Associates and [Yorktown Small-Cap Fund](#) (YOVIX). In 2018, Borgen began investing in Sinovac on expectations of strong earnings and sales growth. His firm owns roughly 75,000 Sinovac shares for clients.

When the Sinovac shares were suspended, they were trading at a price of \$6.47, giving the company a market value of \$460 million. If the stock resumes trading, by one investor's account, it should be worth \$3.3 billion. That would reflect the value that a Chinese investor paid in December for a piece of Sinovac's key operating subsidiary that makes the vaccines.

Sinovac, Borgen says, does "have a very viable business; their Covid-19 vaccine is just exploding across the globe."

The Chinese company, which has a capacity of two billion doses of its vaccine, has shipped 260 million doses globally. Indonesia, for example, has purchased 125 million doses of CoronaVac.

China has promised free vaccines to 69 countries and exports to 28 more, showing off its global health leadership that will “reap soft-power dividends for the Chinese government,” according to Yanzhong Huang, a professor at Seton Hall University’s School of Diplomacy and International Relations.

Founded in 2001, Sinovac developed vaccines for an array of diseases including hepatitis, SARS, swine flu, polio, and hoof and mouth disease.

The company came public in the U.S. via a reverse merger with a shell company in 2003. The scientists behind it were Weidong Yin, who subsequently became chairman and CEO of the holding company, and Aihua Pan, chairman of Sinovac Beijing, Sinovac’s key operation and chairman of Sinobioway Biomedicine, a unit of another publicly traded company that owned 27% of Sinovac Beijing.

Like many biotech companies, Sinovac lost money for years, but it received Chinese government funding to continue with its vaccine research. In January 2016, Chinese regulators approved its vaccine for hand, foot and mouth disease, which can attack the nervous and cardiopulmonary systems.

The next month, CEO Yin offered to take the company private at \$6.18 a share, a 23% premium to the stock price, but well below its all-time high of \$10.46 in 2009. Investors pointed out that since Sinovac began developing its hand foot and mouth disease vaccine in 2008, biotech peers on Nasdaq had outperformed it by more than 200%.

A couple of days later came a competing, \$7 a share bid from [Shandong Sinobioway Biomedicine](#), backed by Aihua Pan, Yin’s onetime partner and chairman of Sinovac Beijing.

Control of the company was now in play, as a special committee studied the bids. Sinovac said it accepted an increased \$7 bid from Yin’s group. Sinobioway then “restated” its bid to \$8 a share.

In March 2018, 1Globe Capital, a major Sinovac shareholder that supported higher bids, sued Sinovac in Antigua, where the original shell company was incorporated, challenging the validity of Sinovac's board. Around the same time, Sinovac asked a Delaware court to determine if 1Globe and other shareholders, including the prominent biotech investor OrbiMed, had triggered its poison pill, which would create 28 million new shares, shrinking the voting power of existing shareholders.

1Globe countersued Sinovac in Delaware alleging that the poison pill wasn't valid. The Antigua court has ruled in Sinovac's favor, a ruling that 1Globe has appealed. Delaware has stayed the litigation pending the outcome of 1Globe's appeal in Antigua.

As a result, Nasdaq said in a statement that trading of Sinovac's shares would remain halted until the company "has fully satisfied Nasdaq's request for additional information." Nasdaq declined to comment further.

Around the same time, Sinovac employees were ensnared in Chinese investigations into whether bribes were paid to Chinese regulators to approve their vaccines and to other government officials between 2002 and 2014. These inquiries had delayed Sinovac's 2016 financial reports, and touched off investigations by the U.S. Securities and Exchange Commission and the Justice Department, Sinovac disclosed in U.S. securities filings. The company restated its 2014 and 2015 financial statements, reclassifying expenses and other items and said that it was reviewing its internal sales practices.

In August 2018, Sinovac said that the U.S. Justice Department had closed its investigation into possible violations of the Foreign Corrupt Practices Act, after the SEC said it had terminated its own related investigation of possible violations of the federal securities laws related to the alleged improper payments to Chinese government officials, and that it wouldn't recommend an enforcement action.

“With the closure of the DOJ’s investigation, the company is not aware of any pending U.S. government investigations of the company related to these matters,” Sinovac said.

The company also noted that Chinese prosecutors did not charge the company nor any of its employees.

The pandemic came as the shares remained suspended. The crisis tapped into Sinovac’s vaccine-making expertise. CoronaVac is based on an inactive virus and unlike Western vaccines, can be transported and refrigerated at higher temperatures.

The vaccine’s efficacy, however, ranged widely in clinical trials, with a trial in Brazil showing it is 50% effective in preventing symptomatic infections, about comparable to the flu vaccine. Still, the same study showed that it is 78% effective in mild cases and 100% effective in preventing severe cases. It is now being used in Turkey, Brazil, Indonesia, the Philippines, and elsewhere in the developing world.

The suspension has obscured the value in Sinovac shares, says Peter Halesworth, CEO of Heng Ren Investments, a longtime Sinovac investor who has sued Sinovac in the U.S. District Court in Massachusetts accusing the company of breaching its fiduciary duties to minority shareholders.

Sinovac has filed to dismiss Heng Ren’s claims. The company did not respond to requests for further comment.

“The wheels of corporate governance” fell off, starting with the botched effort to take Sinovac private at too low a price, says Halesworth, who has self-published a book about his travails with the company. “It led to a breach of trust, to the split between the co-founders, to the bribery probe, and to the court battles and legal logjam.”

Borgen of the Yorktown Small Cap fund says that when the stock eventually finally trades, “we anticipate it will appreciate significantly,” perhaps by 50%.

Halesworth believes the shares are worth much more.

The entire firm is worth at least \$3.3 billion, he believes, based on an investment, this past December, by [Sino Biopharmaceutical](#) (1177. Hong Kong), which took a 15% stake in a Sinovac subsidiary for \$515 million so that Sinovac could double production of its coronavirus vaccine.

Once the Antigua court rules on 1Globe's appeal, then Delaware can make its ruling, and the stock could be allowed to resume trading. In [a statement last week](#), Sinovac said it "is currently unable to estimate when trading will resume, or whether Nasdaq will take any additional action in regards to the trading of the Company's common shares."

Meanwhile, steps toward a possible rapprochement between Sinovac and 1Globe have been taken.

In a statement in December, 1Globe noted that its chairman had "a productive meeting with Sinovac's CEO ...concerning paths forward for the company, importance of focusing on product development and offered its support to develop a vaccine against the novel coronavirus. Subsequently, there have been several follow up collaborative meetings between the two teams."

1Globe and Sinobioway didn't respond to requests for comment, and OrbiMed declined to comment.

Thanks to CoronaVac, Sinovac results have jumped, even with the effects of the poison pill. Recently, Sinovac reported that it earned \$185.2 million, or 97 cents a share, in 2020, on sales of \$510.6 million, versus \$65.2 million, or 41 cents a share, on sales of

\$246.1 million a year earlier. Excluding the poison pill, 2020 earnings per share would have been \$1.29.

Sinovac says it is completing CoronaVac trials in pediatric populations and expects a license to be issued for its polio vaccine this year.

For now, at least \$2.8 billion of value "is trapped and inaccessible for U.S. shareholders," Halesworth says. Yet resolution about the shares could mean a sixfold increase in Sinovac's stock price.

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