



27 July 2006

Biota Holdings Limited (BTA)

Speculative Buy

GSK 2Q Earnings Call: Still Holding Out On Relenza™ Detail

\$1.28

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Key Points

Last night GlaxoSmithKline (GSK) released its 2Q earnings to the market, which was devoid of updated Relenza™ news.

We were largely hoping for an update on CY07 manufacturing capacity given our estimates of up to 32.5-33.5 million orders or intent to order Relenza™ courses on hand at present.

GSK has previously guided 15 million doses in CY06, indicating at present, at least two years manufacturing at 100% capacity.

We are hopeful of some guidance prior to the end of CY07.

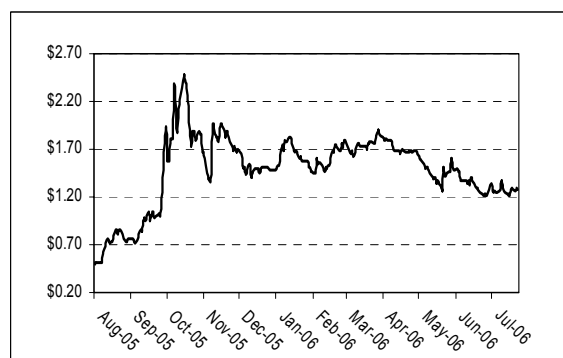
Summary

Market Capitalisation (M)	\$229.5
Share Price	\$1.28
Shares on Issue (M)	179.3
52 Week High	\$2.75
52 Week Low	\$0.48
Valuation Per Share (fully diluted)	\$1.50
12 Month Price Target	\$1.70
Cash (M) as at 31/12/05	\$51.1
Price Volatility	High

Key Financials (A\$'000)

Year End	FY05 Actual	FY06 Est.	FY07 Est.
Revenue	5,049	11,227	38,175
Litigation Expense	(3,700)	(4,825)	(5,000)
Total Op. Expenses	(11,908)	(18,509)	(21,590)
R&D Expenses	(7,337)	(5,315)	(5,395)
EBITD	(15,485)	(14,439)	9,982
EBIT	(16,352)	(15,379)	9,040
NPAT pre Net R&D	(9,020)	(11,049)	13,103
Reported Profit	(15,062)	(13,825)	10,247
EPS (c)	(12.2)	(8.2)	5.7
PE Ratio (x)	n/a	n/a	22.3
EPS pre R&D (c)	(7.3)	(6.7)	7.4

Share Price Graph (A\$)



Our View

- We believe total worldwide orders for Relenza™ stands at approximately 32.5 to 33.5 million treatment courses. At our base value of A\$25 per course, this represents \$56.9 to \$58.6 million in royalties to Biota. We believe the majority of which will be forthcoming in FY07 and more particularly in FY08. We understand the relationship between Biota and GSK is improving and as such, we remain hopeful of further news flow from Biota regarding the quantum of royalty payments recognised, and ultimately received.
- Last week GSK and the Department of Health and Human Services (HHS) announced an initial contracted order of US\$16.8 million to GSK over two years. The number of courses this contract represents was not disclosed to the market. As previously discussed, the ultimate goal of the HHS is to accumulate 81 million courses of Tamiflu® and Relenza™ into the strategic US stockpile by December 2008. We believe Relenza™ orders will be fulfilled by a GSK manufacturing plant in North Carolina. As noted previously, the Relenza™ build by the HHS will target 16.2 million courses (or 20%) of the total US stockpile by end CY08.
- As a result of the conference call we have not amended our financial model. We are forecasting an FY06 NPAT loss of \$13.8 million. We maintain our FY07 NPAT of \$10.2 million, and are forecasting an FY08 NPAT of \$35.0 million. We note our estimates are subject to timing differences of royalty payments to Biota and Relenza™ pricing for government stockpiles, which is largely unknown, though we maintain our base estimate of A\$25 per course. At current levels, Biota is trading at a 14.7% discount to our base value (24.7% to target) and as such we believe the Company continues to represent value for investors at these levels. We believe the next Relenza™ order will be from Ireland. We note recent comments from Irish government representatives that discussions with GSK over a 0.4-0.6 million course order are still ongoing. We maintain our Speculative Buy recommendation.

Biota Holdings Limited - Summary of Forecasts

BTA

\$1.28

PROFIT & LOSS SUMMARY (A\$'000)				
Period	FY05A	FY06E	FY07E	FY08E
Total Revenue	5,049	11,227	38,175	63,409
<i>Growth (pcp)</i>	-37.3%	122.4%	240.0%	66.1%
Net Operating Revenue	(6,859)	(7,282)	16,585	41,489
R&D Expenses	(7,337)	(5,315)	(5,395)	(5,583)
EBITD	(15,485)	(14,439)	9,982	32,962
Depreciation	(867)	(940)	(942)	(864)
EBIT	(16,352)	(15,379)	9,040	32,098
Net Interest	1,289	1,842	1,207	2,945
Pre-Tax Profit	(15,063)	(13,537)	10,247	35,043
Tax Expense	0	0	0	0
Minorities	0	0	0	0
NPAT	(15,063)	(13,537)	10,247	35,043
<i>Growth (pcp)</i>	n/a	n/a	n/a	242.0%
Net Abnormals	0	(288)	0	0
Reported Profit	(15,062)	(13,825)	10,247	35,043
NPAT pre Net R&D	(9,020)	(11,049)	13,103	40,126

PER SHARE DATA				
Period	FY05A	FY06E	FY07E	FY08E
EPS (c)	(12.2)	(8.2)	5.7	19.7
<i>Growth (pcp)</i>	n/a	n/a	n/a	242.0%
Dividend (c)	0.0	0.0	0.0	0.0
Franking	0%	0%	0%	0%
Gross CF per Share (c)	(10.8)	(2.6)	6.0	22.2
NTA per share (c)	21.1	24.4	31.3	53.7

VALUATION MULTIPLES				
Period	FY05A	FY06E	FY07E	FY08E
PE Ratio (x)	n/a	n/a	22.3	6.5
Dividend Yield (%)	0.0%	0.0%	0.0%	0.0%
EV/EBITA (x)	(14.1)	(13.6)	15.9	4.0
EV/EBIT (x)	(12.6)	(12.0)	19.2	4.2

CAPITAL RAISING ASSUMPTIONS				
Period	FY05A	FY06E	FY07E	FY08E
Shares Issued (m)	n/a	41.0	0.0	0.0
Issue Price (A\$)	n/a	0.76	0.0	0.0
Cash Raised (A\$m)	n/a	31.0	0.0	0.0

KEY RATIOS				
Period	FY05A	FY06E	FY07E	FY08E
EBITD/Sales Margin %	-306.7%	-128.6%	26.1%	52.0%
EBIT/Sales Margin %	-323.9%	-137.0%	23.7%	50.6%
Current ratio (x)	6.3	7.6	13.6	14.7
Net Debt : Equity (%)	-92.7%	-114.3%	-100.7%	-99.4%
ROE (%)	-57.9%	-33.7%	18.4%	36.6%
Dividend Payout Ratio (%)	0.0%	0.0%	0.0%	0.0%

BALANCE SHEET SUMMARY (A\$'000)				
Period	FY05A	FY06E	FY07E	FY08E
Cash	24,753	45,991	56,094	95,067
Receivables	972	1,090	3,705	6,154
Inventories	0	0	0	0
Other	0	0	0	0
Total Current Assets	25,725	47,081	59,799	101,221
Investments	0	0	0	0
Inventories	0	0	0	0
Property Plant & Equip	4,702	4,712	4,319	4,005
Intangibles	0	0	0	0
Other	0	0	0	1
Total Non-Current Assets	4,702	4,712	4,319	4,006
TOTAL ASSETS	30,427	51,793	64,118	105,227
Accounts Payable	3,727	5,614	3,817	6,341
Borrowings	366	0	0	0
Provisions	0	0	0	0
Other	0	568	568	568
Total Current Liab	4,093	6,182	4,385	6,909
Borrowings	366	0	0	0
Provisions	0	0	0	0
Other	0	5,324	3,968	2,612
Total Non-Current Liab	298	5,382	4,026	2,670
TOTAL LIABILITIES	4,391	11,564	8,411	9,579
TOTAL EQUITY	26,036	40,229	55,707	95,648

CASH FLOW SUMMARY (A\$'000)				
Period	FY05A	FY06E	FY07E	FY08E
EBIT (excl Abs/Extr)	(16,352)	(15,379)	9,040	32,098
Add: Depreciation	867	940	942	864
Amortisation	0	0	0	0
Change in Pay.	478	1,887	(1,796)	2,523
Less: Tax paid	0	0	0	0
Net Interest	1,289	1,842	1,207	2,945
Change in Rec.	361	600	2,615	2,449
Change in Prov.	12	18	0	0
Change in Inv.	0	0	0	0
Change in Def. Rev.	0	5,892	(1,356)	(1,356)
Gross Cashflows	(13,345)	(4,201)	10,653	39,523
Capex	(4,323)	(950)	(550)	(550)
Free Cashflows	(17,668)	(5,151)	10,103	38,973
Dividends Paid	0	0	0	0
Net Cash Flow	(17,668)	(5,151)	10,103	38,973

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