

Biota Holdings Ltd (BTA.ASX)

Friday 10 August 2007
Healthcare

No surprises

Biota announced a full year NPAT of \$20.2m, in line with our forecasts and well above the -\$11.3m loss of FY2006. Since management altered its guidance less than two weeks ago, there were no surprises in the result.

\$62m cash. At the end of FY2007 the company had \$62.2m in cash. With its strong cash balance, and growing cash flows from Relenza, we do not believe the company will need any further capital raisings.

Only marginal adjustments to our forecasts. We have made only minor adjustments to our FY08 and FY09 forecasts, with normalised FY08e NPAT down 2% to \$25.4m and normalised FY09e NPAT down 1% to \$67.5m.

Biota has lifted its estimate of damages in its case against GSK from \$308-\$430m to \$564-\$704m, an increase of 64% at the top end. We note that the company's current market cap is only around \$330m, meaning there is considerable upside if BTA is successful. **Assuming BTA receives an outcome in this new range implies a value of \$4.52-\$5.00 per share.** We are currently assuming a conservative \$100m outcome from the trial.

NPV of \$2.92/share. Our final valuation for Biota has risen marginally to \$2.92/share, assuming a \$100m settlement from GSK in FY2009 and that 2 of the company's development products achieve registration and sales.

We retain our Buy recommendation for Biota Holdings and increase our price target by \$0.09 to \$2.92/share.

Rating: Buy
(previous): Buy

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Share price: \$1.775
Price target: \$2.92
NPV per share: \$2.92
Risk: High

Shares on issue (m): 181.7
Shares on issue (diluted) (m): 182.7
Free float: 100%
Average daily volume: 286,539

Market cap (\$m): \$324.3
Enterprise value FY07 (\$m): \$262.1
Net Debt FY07 (\$m): -62.2
Gearing (ND/ND+E) FY07: NA
S'holders equity FY07 (\$m): 71.5
NTA per share FY07: \$0.32

Forecast: 2008
Free cash flow (\$m): 21.3
Return on average equity: 26.3%
Net interest cover: NA

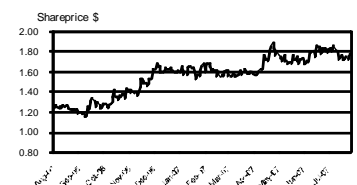
Forecast: 2009
Free cash flow (\$m): 136.5
Return on average equity: 28.9%
Net interest cover: NA

Year to Jun (\$m)	2006a	2007a	2008e	2009e*	2010e
Sales revenue	12.7	54.8	72.6	196.6	116.6
% change	246%	331%	32%	171%	-41%
EBITDA	-12.6	17.5	18.2	176.7	96.1
EBITDA margin	-99%	32%	25%	90%	82%
NPAT rep. (incl. sig items)	-11.3	20.2	24.7	136.8	71.1
NPAT normalised	-11.3	20.5	25.4	67.5	71.7
EPS diluted norm. (c)	-0.06	0.11	0.14	0.37	0.39
% change	-43%	NA	24%	166%	6%
Dividend (c)	0	0	0	0	0
PER (x)	-28.1	15.8	12.8	4.8	4.5
EV/EBITDA (x)	-21.6	15.0	13.2	0.6	0.4
Yield (%)	0.00%	0.00%	0.00%	0.00%	0.00%

*2009 estimate includes settlement from GSK in reported numbers.

Source: Company, Foster Stockbroking

Shareprice (\$):



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NO SURPRISES IN FULL YEAR RESULT

Biota announced a full year NPAT of \$20.2m, in line with our forecasts and well above the -\$11.3m loss of FY2006. Since management altered its guidance less than two weeks ago, there were no surprises in the result. A comparison between our forecasts and the actual results are shown in the following table.

Biota Profit & Loss \$m

Y/e Jun	FY07a	FSBe	% change
Sales revenue	54.8	53.9	2%
EBITDA	17.5	15.6	12%
EBITDA margin	32%	29%	10%
Depreciation	1.2	1.0	21%
EBITA	16.3	14.6	12%
EBITA margin	30%	27%	10%
Amortisation	0.3	0.7	-53%
EBIT	15.9	13.9	15%
EBIT margin	29%	26%	13%
Net interest expense	-1.9	-3.0	-38%
PBT	17.8	16.9	5%
Tax	-2.3	-3.0	-22%
NPAT	20.2	19.9	1%
NPAT normalised	20.5	20.6	0%

Source: Company; Foster Stockbroking estimates.

Sales revenue and NPAT were in line with our expectations, however there was some variation in the costs, with amortisation and tax credits lower than we expected, and the EBITDA margin higher.

At the end of FY2007 the company had \$62.2m in cash. With its strong cash balance, and growing cash flows from Relenza, we do not believe the company will need any further raisings.

NUMBER OF MILESTONES EXPECTED IN 2008

A number of milestones are expected from Biota over FY2008.

BTA Milestones

Date	Milestone
August 2007	Biota witness statements due for Relenza trial
October 2007	PII trial for LANI to commence in Japan
December 2007	GSK witness statements due for Relenza trial
April 2008	Relenza trial commences
Q4 FY2008	PII trial for HRV to commence

Source: FSB, company

FORECAST CHANGES

Following the result we have made some small changes to our FY08e and FY09e forecasts, as shown in the following table.

Forecast changes \$m						
Y/e Jun	FY08e new	FY08e old	% change	FY09e new	FY09e old	% change
Sales revenue	72.6	72.8	0%	196.6	196.7	0%
EBITDA	18.2	17.5	4%	176.7	175.9	0%
EBITDA margin	25%	24%	4%	90%	89%	1%
Depreciation	1.3	1.0	21%	1.3	1.1	21%
EBITA	16.9	16.5	3%	175.4	174.8	0%
EBITA margin	23%	23%	3%	89%	89%	0%
Amortisation	0.6	1.3	-53%	0.6	1.3	-53%
EBIT	16.3	15.1	8%	174.7	173.5	1%
EBIT margin	22%	21%	8%	89%	88%	1%
Net interest expense	-4.4	-4.4	0%	-7.3	-7.3	0%
PBT	20.7	19.5	6%	182.0	180.7	1%
Tax	-4.0	-5.0	-20%	45.2	44.2	2%
NPAT	24.7	24.5	1%	136.8	136.6	0%
NPAT normalised	25.4	25.9	-2%	67.5	67.9	-1%

Source: Company; Foster Stockbroking estimates.

We expect continued strong growth from BTA over FY08 and FY09.

RELENZA DAMAGE ESTIMATE NOW \$564-704M

BTA is currently engaged in a law suit against GlaxoSmithKline, the licensee of its key drug Relenza, claiming that GSK failed in its contractual obligation to support the drug's development and sales. **Biota has lifted its estimate of damages in its case against GSK from \$308-430m to \$564-704m, an increase of 64% at the top end.** We note that the company's current market cap is only around \$330m, meaning there is considerable upside if BTA is successful.

The company attributes the rising claim to, amongst other things, the strong growth in the stockpiling market for the drug, which is now valued at US\$5.6b. In our opinion, the new estimate would also have been influenced by BTA's growing confidence in their claim following a lengthy "discovery period" examining GSK documents. **We remain confident that Biota's claim has merit.**

Assuming BTA receives an outcome in this new range implies a value of \$4.52-\$5.00 per share. We are currently assuming a conservative \$100m outcome from the trial.

Final valuation

Our final valuation for Biota has risen marginally to \$2.92/share, assuming a \$100m settlement from GSK and that 2 of the company's development products achieve registration and sales.

Biota Valuation				
	Now		In 1 year	
	\$m	per share	\$m	per share
DCF valuation	465.8	2.56	440.5	2.42
Net debt	-65.5	-0.36	-149.7	-0.82
Total valuation	531.2	2.92	590.1	3.25

Source: FSB estimates

Our valuation includes no terminal value, as we have only forecast sales for each product up until their patents expire.

RECOMMENDATION

We retain our **Buy** recommendation for Biota Holdings and increase our price target by \$0.09 to \$2.92/share.

FINANCIALS

Biota Profit & Loss \$m

Y/e Jun	2007a	2008e	2009e	2010e	1H 08e	2H 08e
Sales revenue	54.8	72.6	196.6	116.6	33.7	38.9
EBITDA	17.5	18.2	176.7	96.1	1.7	16.5
EBITDA margin	32%	25%	90%	82%	5%	42%
Depreciation	1.2	1.3	1.3	1.3	0.6	0.6
EBITA	16.3	16.9	175.4	94.7	1.1	15.9
EBITA margin	30%	23%	89%	81%	3%	41%
Amortisation	0.3	0.6	0.6	0.6	0.3	0.3
EBIT	15.9	16.3	174.7	94.1	0.8	15.5
EBIT margin	29%	22%	89%	81%	2%	40%
Net interest expense	-1.9	-4.4	-7.3	-7.5	-1.9	-2.5
PBT	17.8	20.7	182.0	101.6	2.7	18.0
Tax	-2.3	-4.0	45.2	30.5	0.0	-4.0
NPAT	20.2	24.7	136.8	71.1	2.7	22.0
NPAT normalised	20.5	25.4	67.5	71.7	3.0	22.4

Source: Company; Foster Stockbroking estimates.

Biota Cashflow \$m

Y/e Jun	2007a	2008e	2009e	2010e
Receipts	47.3	71.7	193.3	112.1
Payments	-34.0	-53.8	-17.8	-18.8
Interest	2.7	4.4	7.3	7.5
Tax	0.0	0.0	-45.2	-30.5
Other	5.1	0.0	0.0	0.0
Operating cash flow	21.0	22.3	137.6	70.4
Loans to related parties	0.0	0.0	0.0	0.0
Sale of PPE	0.0	0.0	0.0	0.0
Acquisitions	-5.5	0.0	-4.0	0.0
Capex	-0.9	-1.1	-1.1	-1.1
Investing Cashflow	-6.4	-1.1	-5.1	-1.1
Debt repayments	0.0	0.0	0.0	0.0
Debt borrowed	0.0	0.0	0.0	0.0
Equity proceeds	1.4	0.0	0.0	0.0
Dividends	0.0	0.0	0.0	0.0
Other	0.0	0.0	0.0	0.0
Finance Cashflow	1.4	0.0	0.0	0.0

Source: Company; Foster Stockbroking estimates.

Biota Balance Sheet \$m

Y/e Jun	2007a	2008e	2009e	2010e
Cash and cash equivalents	62.2	83.4	215.9	285.2
Receivables	9.4	10.2	13.6	18.1
Inventories	0.0	0.0	0.0	0.0
PPE	5.2	4.9	4.7	4.5
Intangibles	13.4	13.1	12.5	11.9
Total Assets	92.5	115.4	274.8	329.8
Payables	6.0	6.5	8.7	10.5
Deferred revenue	7.5	0.0	0.0	0.0
Tax liabilities	0.0	0.0	13.5	12.2
Debt	0.0	0.0	0.0	0.0
Provisions	7.4	3.6	1.3	1.4
Other	0.0	8.9	18.1	1.5
Total Liabilities	20.9	19.1	41.7	25.6
Net assets	71.5	96.3	233.1	304.2
Contributed Equity	161.7	161.7	161.7	161.7
Reserves	0.6	0.6	0.6	0.6
Retained profits	-90.8	-66.0	70.8	141.9
Total Equity	71.5	96.3	233.1	304.2

Source: Company; Foster stockbroking estimates.

Biota Financial Ratios

Y/e Jun	2007a	2008e	2009e	2010e
DPS c	0.0	0.0	0.0	0.0
Yield %	0.0	0.0	0.0	0.0
Ave wtd shares dil m	182.7	182.7	182.7	182.7
EPS rep c	0.11	0.14	0.75	0.39
EPS normalised c	0.11	0.14	0.37	0.39
PER x	15.8	12.8	4.8	4.5
EPS growth %	NA	24%	166%	6%
Interest cover x	-8.4	-3.7	-24.1	-12.6
Ave RoE (%)	29%	26%	29%	24%
Ave RoA (%)	53%	51%	297%	211%
EV/EBITDA x	15.0	13.2	0.6	0.4

Source: Company; Foster Stockbroking estimates.

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