

Biota Holdings Ltd (BTA.ASX)

Feeling better

Biota announced that its long acting neuraminidase inhibitor (LANI) has commenced Phase II clinical evaluation. This is very positive news as we continue to believe in LANI being the second generation anti-influenza treatment that will eventually replace Relenza and increase BTA's market share.

The main competitor to Relenza, Tamiflu, is currently under pressure in Japan as it is being linked to teen suicides. Chugai Pharmaceutical announced that they will only prepare 6m treatment courses of Tamiflu instead of the normal 12m for the 2007-2008 influenza season. We believe that the Japanese health authorities will look toward Relenza to fill this void.

Litigation with GSK continues with a mediation date to be decided on shortly. We have also reduced the monetary outcome of the litigation down from \$100m to \$80m.

We have increased FY08 revenue from partnering and research arrangements by \$2.2m, a 21% uplift from previous forecasts. We have taken this step as BTA reached our 1H08 forecasts in 1Q08.

We have reduced our FY08 and FY09 revenue assumptions from Relenza by 29% and 26% respectively as we continue to believe that Relenza production is not at full capacity based on world demand.

When factoring in a worst case scenario, where sales from Relenza decline and the lawsuit against GSK fails, **our valuation for BTA only falls to \$1.94/share,** still 44% above the current share price.

Following the encouraging news related to LANI and the negative news surrounding Tamiflu, **we have increased our price target to \$2.84 per share and upgrade our recommendation from Hold to Buy.**

Year to Jun (\$m)	2005a	2006a	2007e	2008e	2009e	2010e
Sales revenue	3.7	12.7	54.8	57.3	160.2	91.4
% change		246%	331%	5%	180%	-43%
EBITDA	-15.5	-12.6	17.5	12.9	135.2	70.9
EBITDA margin	-422%	-99%	32%	23%	84%	78%
NPAT rep	-15.1	-11.3	20.2	19.4	109.4	53.5
NPAT norm	-15.1	-11.3	20.5	20.1	54.0	54.1
EPS (c)	-0.11	-0.06	0.11	0.11	0.30	0.30
% change	0%	-43%	NA	-2%	169%	0%
Dividend (c)	0	0	0	0	0	0
PER (x)	-12.2	-21.4	12.0	12.3	4.6	4.6
EV/EBITDA (x)	-10.3	-15.6	10.6	13.0	0.5	0.2
Yield (%)	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%

Adjusted for NRIs and amortisation of intangibles

Source: Company, Foster Stockbroking

Monday 26 November 2007
Healthcare

Rating: Buy
(previous): Hold

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Share price: \$1.35
Price target: \$2.84
(Previous) \$1.60
NPV per share \$2.56
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): \$246.6
Enterprise value FY07 (\$m): \$184.5
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): 16.4
Return on average equity: 22.1%
Net interest cover: NA

Forecast: 2009
Free cash flow (\$m): 108.9
Return on average equity: 27.0%
Net interest cover: NA

Shareprice (\$):



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LANI ENTERS PHASE II

Biota announced on 22 November 2007 that its long acting neuraminidase inhibitor (LANI), an anti-influenza treatment, has commenced Phase II clinical evaluation. The study is being carried out in the northern hemisphere influenza season and the first patient has commenced treatment.

We continue to believe that LANI is a second generation anti-influenza treatment as Biota expects it to offer the potential for once only treatment and once weekly prophylactic protection from influenza. These are known consumer advantages over existing inhaled (Relenza) and oral (Tamiflu) therapies. We forecast LANI to come into production by 2011, which is timely as Relenza's patent expires 2014.

TAMIFLU COMING UNDER PRESSURE

There have been reports coming out of Japan that several teenagers with influenza who were also taking Tamiflu had fallen from buildings after taking the drug. Even though there is no proven causal effect, the Ministry of Health, Labour and Welfare (MHLW) has issued safety information on March 20th 2007 restricting the use of Tamiflu for teenage patients.

Subsequent to this, Chugai Pharmaceuticals in Japan has decided to supply only 6m treatment courses of Tamiflu for the 2007-2008 influenza season; which is half of what they supplied in 2006-2007. We believe that MHLW will look to Relenza to fill the void created by the lower supply of Tamiflu available during this upcoming influenza season, which should be reflected in Relenza royalty revenue for 2Q08 and 3Q08.

FORECAST CHANGES

We have reduced our FY08 and FY09 revenue assumptions from Relenza by 29% and 26% respectively as we continue to believe that Relenza production is not at full capacity based on world demand. As we do not know with certainty when GSK will ramp up production of Relenza to meet growing world demand for anti-influenza treatments and to fill in the void that should be created by Tamiflu encountering problems, we have decreased FY08 and FY09 revenue accordingly.

Biota Profit & Loss

\$m						
Y/e Jun	FY08e new	FY08e old	% change	FY09e new	FY09e old	% change
Sales revenue	57.3	72.6	-21%	160.2	196.6	-19%
EBITDA	12.9	18.2	-29%	135.2	176.7	-23%
EBITDA margin	23%	25%	-10%	84%	90%	-6%
Depreciation	1.3	1.3	0%	1.3	1.3	0%
EBITA	11.6	16.9	-31%	133.9	175.4	-24%
EBITA margin	20%	23%	-13%	84%	89%	-6%
Amortisation	0.6	0.6	0%	0.6	0.6	0%
EBIT	11.0	16.3	-33%	133.3	174.7	-24%
EBIT margin	19%	22%	-14%	83%	89%	-6%
Net interest expense	-4.4	-4.4	0%	-7.3	-7.3	0%
PBT	15.4	20.7	-26%	140.5	182.0	-23%
Tax	-4.0	-4.0	0%	31.1	45.2	-31%
NPAT	19.4	24.7	-21%	109.4	136.8	-20%
NPAT normalised	20.1	25.4	-21%	54.0	67.5	-20%

Source: Company; Foster Stockbroking estimates.

VALUATION

Our final valuation for Biota is \$2.56 per share, assuming an \$80m settlement from GSK and that two of the company's development products achieve registration and sales.

	Now		In 1 year	
	\$m	per share	\$m	per share
DCF valuation	399.4	2.20	385.7	2.12
Net debt	-65.5	-0.36	-131.0	-0.72
Total valuation	464.9	2.56	516.7	2.84

Source: FSB estimates

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

RECOMMENDATION

Following the encouraging news related to LANI and the negative news surrounding Tamiflu, we have upgraded our Hold recommendation to Buy and increased our price target to \$2.84 per share.

We note that even factoring in a worst case scenario, where sales from Relenza decline and the lawsuit against GSK fails, our valuation for BTA only falls to \$1.94/share, still 44% above the current share price.

FINANCIALS

Biota Profit & Loss \$m

Y/e Jun	2007a	2008e	2009e	2010e	1H 08e	2H 08e
Sales revenue	54.8	57.3	160.2	91.4	22.7	34.6
EBITDA	17.5	12.9	135.2	70.9	0.7	12.2
EBITDA margin	32%	23%	84%	78%	3%	35%
Depreciation	1.2	1.3	1.3	1.3	0.6	0.6
EBITA	16.3	11.6	133.9	69.5	0.1	11.6
EBITA margin	30%	20%	84%	76%	0%	33%
Amortisation	0.3	0.6	0.6	0.6	0.3	0.3
EBIT	15.9	11.0	133.3	68.9	-0.2	11.2
EBIT margin	29%	19%	83%	75%	-1%	33%
Net interest expense	-1.9	-4.4	-7.3	-7.5	-1.9	-2.5
PBT	17.8	15.4	140.5	76.4	1.7	13.7
Tax	-2.3	-4.0	31.1	22.9	0.0	-4.0
NPAT	20.2	19.4	109.4	53.5	1.7	17.7
NPAT adj	20.5	20.1	54.0	54.1	2.0	18.1

Source: Company; Foster Stockbroking estimates.

Biota Cashflow \$m

Y/e Jun	2007a	2008e	2009e	2010e
Receipts	47.3	57.6	156.5	86.4
Payments	-34.0	-44.6	-22.6	-19.4
Interest	2.7	4.4	7.3	7.5
Tax	0.0	0.0	-31.1	-22.9
Other	5.1	0.0	0.0	0.0
Operating cash flow	21.0	17.4	110.0	51.5
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
Financing 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	78.5	183.5	233.9
Receivables	9.4	9.1	12.7	17.7
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	109.3	241.5	278.2
Payables	6.0	5.8	8.1	9.3
Deferred revenue	7.5	0.0	0.0	0.0
Tax liabilities	0.0	0.0	9.3	9.2
Debt	0.0	0.0	0.0	0.0
Provisions	7.4	3.6	2.0	1.7
Other	0.0	8.9	21.6	4.2
Total Liabilities	20.9	18.4	41.1	24.4
Net assets	71.5	91.0	200.3	253.8
Contributed Equity	161.7	161.7	161.7	161.7
Reserves	0.6	0.6	0.6	0.6
Retained profits	-90.8	-71.3	38.0	91.5
Total Equity	71.5	91.0	200.3	253.8

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	0.11	0.60	0.29
EPS adj c	0.11	0.11	0.30	0.30
PER x	12.0	12.3	4.6	4.6
EPS growth %	NA	-2%	169%	0%
Interest cover x	-8.4	-2.5	-18.4	-9.2
Ave RoE (%)	29%	22%	27%	21%
Ave RoA (%)	53%	36%	230%	156%
EV/EBITDA x	10.6	13.0	0.5	0.2

Source: Company; Foster Stockbroking estimates.

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