

28 July 2008

**Change of target price**

**Buy**

**Important:** The above recommendation has been made on a 12 month view and may not suit your investment needs or timeframe. The basis it is prepared on is summarised on the last page of this report. **PLEASE CONTACT YOUR ADVISER TO DISCUSS THIS GENERAL RECOMMENDATION BEFORE ACTING ON IT.**

**Mod-High Volatility**

**Target price**  
A\$1.24 (from A\$1.29)

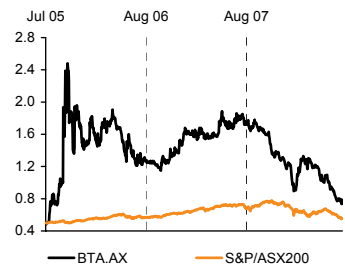
**Price**  
A\$0.70

**Short term (0-60 days)**  
n/a

BTA80728

**Price performance**

	(1M)	(3M)	(12M)
Price (A\$)	0.81	1.14	1.80
Absolute %	-13.6	-38.9	-61.1
Rel market %	-8.9	-31.3	-50.4
Rel sector %	-14.9	-38.9	-56.5



**Market capitalisation**  
A\$119.70m (US\$114.74m)

**Average (12 mth) daily turnover**  
A\$0.54m (US\$0.49m)

RIC: BTA.AX, BTA AU  
Priced at close of business 25 Jul 2008.  
Source: Bloomberg

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# Biota Holdings

## Relenza numbers disappoint

**BTA will receive Relenza royalties from GSK for 2QCY08 well below our forecasts. The difference demonstrates the difficulty in predicting the lumpy nature of this royalty stream. We have revised our forecasts accordingly.**

**Key forecasts**

	FY06A	FY07A	FY08F	FY09F	FY10F
EBITDA (A\$m)	-12.6	16.6	-7.52 ▼	23.4	8.23
Reported net profit (A\$m)	-11.3	20.2	-6.71 ▼	23.7	9.77 ▼
Normalised net profit (A\$m) <sup>1</sup>	-11.3	17.9	-6.76 ▼	23.7	9.79
Normalised EPS (c) <sup>1</sup>	-6.28	9.94	-3.95 ▼	13.8	5.72
Normalised EPS growth (%)	n/a	n/a	-95.6	3149.4	-58.7
Dividend per share (c)	0.00	0.00	0.00	0.00	0.00
Dividend yield (%)	0.00	0.00	0.00	0.00	0.00
Normalised PE (x)	n/m	7.04	n/m	5.06	12.2
EV/EBITDA (x)	n/m	3.46	n/m	1.90	3.80
Price/net oper. CF (x)	-16.4	6.00	66.5 ▲	5.23 ▼	8.23 ▼
ROIC (%)	n/a	1506.1	-78.3	682.1	86.6

Use of ▲ ▼ indicates that the line item has changed by at least 5% year to Jun, fully diluted

1. Pre non-recurring items and post preference dividends

Accounting Standard: IFRS

Source: Company data, ABN AMRO Morgans forecasts

**Despite disappointing Relenza numbers for the quarter...**

GlaxoSmithKline (GSK) has released 2Q sales figures for Relenza, reporting £3m (about A\$6.2m) in sales, reflecting "the variable timings of tender orders from governments". BTA has further commented on the off-season in the Northern Hemisphere. As a result, BTA will receive A\$20.5m in royalties for FY08 Relenza sales (a 7% royalty). This is less than our expectation of A\$31.5m. Recently BTA concluded its litigation against GSK, receiving A\$20m in compensation.

**... macro dynamic supports outlook**

Competitor Roche also experienced a significant decrease in Tamiflu sales in 1HCY08 (down 75% on pcp) due to the initial completion of existing pandemic stockpiling orders from governments and corporations, so it was not a surprise to see a soft 2Q sales figure from GSK; albeit the decline was more than expected. This demonstrates the difficulty in forecasting the lumpy nature of Relenza sales. Despite this, we believe recent Japanese clinical data showing that Tamiflu and Relenza work equally well to fight the symptoms of influenza in children and recent US/UK government commentary on the need to increase the size of stockpiles and more evenly stock Relenza vs Tamiflu bodes well for Relenza over the longer term.

**Next near-term milestone – LANI Phase II trial results**

One of BTA's key projects is the LANI compound, which has been partnered with Daiichi-Sankyo. The next milestone we are focussed on is the results from the LANI Phase II trial, which is expected in July 2008.

**Changes to forecasts to reflect lower royalty**

We have adjusted our forecasts to reflect the lower royalty. Our revised forecasts are detailed overleaf. Following these changes our DCF has decreased slightly to A\$1.24 (from A\$1.29). The key assumptions in deriving our valuation include a risk-free rate of 6.5%, a WACC of 14.6% and a terminal growth rate of 3.5%. Our target price is set at the same level as our valuation. Risks to our target price include a delay in partnering key projects or the failure to achieve key end points.

## Changes to forecasts

**Table 1 : Changes to forecasts**

(A\$m)	FY08F			FY09F			FY10F		
	Old	New	% change	Old	New	% change	Old	New	% change
Revenue	49.2	38.7	-21.4%	71.9	71.9	0.1%	54.7	54.7	0.1%
EBITDA	0.0	-7.5	0.0%	23.4	23.4	0.0%	8.2	8.2	0.4%
NPAT	0.7	-6.7	-1,007.0%	24.1	23.7	-1.7%	10.3	9.8	-5.1%
EPS	0.4	-3.9	-1,012.8%	14.1	13.8	-1.8%	6.0	5.7	-4.8%

Source: ABN AMRO Morgans forecasts

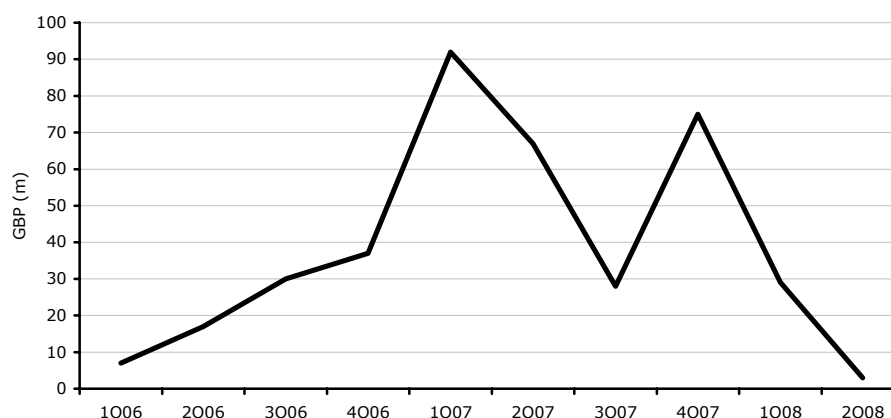
**Table 2 : Milestones to watch**

Product	Timing	Milestone	Impact
Relenza	July 2008	Mediation result with GSK	Achieved
LANI	July 2008	Results of Phase II trial	Positive
HRV	3Q 2008	Start Phase IIa challenge trial - dosing stage	Positive

Source: ABN AMRO Morgans

## Relenza sales

**Chart 1 : Relenza sales**



Source: Company data, ABN AMRO Morgans

## Recap on BTA

Biota is a leading anti-infective drug development company with expertise in respiratory diseases, particularly influenza. Biota developed the flu drug known as Relenza™ and marketed by GlaxoSmithKline. Relenza™ is used to treat seasonal influenza and is being stockpiled by various governments for defence against possible pandemic outbreaks of avian (bird) influenza.

BTA's development pipeline incorporates:

- a series of candidate drugs aimed at the treatment of respiratory syncytial virus (RSV) disease, licensed to MedImmune Inc;
- a potential treatment for hepatitis C virus (HCV) infections, licensed to Boehringer Ingelheim;
- clinical trials under way, with BTA's lead compound for human rhinovirus (HRV) infection in patients with patients who have comprised respiration or immune systems; and
- a key partnership with Daiichi-Sankyo for the development of second-generation influenza antivirals, known as long-acting neuraminidase inhibitor (LANI).

**BTA – financial summary**

Year to 30 Jun (A\$m)	AIFRS 2006A	AIFRS 2007A	AIFRS 2008F	AIFRS 2009F	AIFRS 2010F	Valuation price (A\$)	0.700	Price target (A\$)	1.24		
<b>Income statement</b>	<b>2006A</b>	<b>2007A</b>	<b>2008F</b>	<b>2009F</b>	<b>2010F</b>	<b>Valuation metrics</b>					
Divisional sales	12.7	54.8	38.7	71.9	54.7	Preferred methodology	DCF	Val'n (A\$)	\$ 1.24		
Total revenue	12.7	54.8	38.7	71.9	54.7	<b>DCF valuation inputs</b>					
<b>EBITDA</b>	<b>-12.6</b>	<b>16.6</b>	<b>-7.5</b>	<b>23.4</b>	<b>8.2</b>	Rf	6.50%	10-year rate	6.50%		
Associate income	0.0	0.0	0.0	0.0	0.0	Rm-Rf	4.50%	Margin	2.0%		
Depreciation	-1.0	-1.2	-3.0	-3.0	-3.0	Beta	1.80	Kd	8.50%		
EBITA	-13.6	15.4	-10.5	20.4	5.3	CAPM (Rf+Beta(Rm-Rf))	14.6%	Ke	14.6%		
Amortisation/impairment	0.0	0.0	0.0	0.0	0.0	Equity (E/EV)	100.0%	NPV cash flow (A\$m)	159.2		
EBIT	-13.6	15.4	-10.5	20.4	5.3	Debt (D/EV)	0.0%	Minority interest (A\$m)	0.0		
EBIT(incl associate profit)	-13.6	15.4	-10.5	20.4	5.3	Interest rate	8.50%	Net debt (A\$m)	-53.7		
Net interest expense	2.3	2.5	3.7	3.2	4.5	Tax rate (t)	30.0%	Investments (A\$m)	0.0		
Pre-tax profit	-11.3	17.9	-6.8	23.7	9.8	Franking credit	100.0%	Equity market value (A\$m)	212.9		
Income tax expense						<b>WACC</b>	14.6%	Diluted no. of shares (m)	171.0		
After-tax profit	-11.3	17.9	-6.8	23.7	9.8			<b>DCF valuation (A\$)</b>	<b>1.24</b>		
Minority interests						<b>Multiples</b>		<b>2007A</b>	<b>2008F</b>	<b>2009F</b>	<b>2010F</b>
<b>NPAT</b>	<b>-11.3</b>	<b>17.9</b>	<b>-6.8</b>	<b>23.7</b>	<b>9.8</b>	Enterprise value (A\$m)	72.1	80.5	59.0	45.8	
Significant items	0.0	2.3	0.0	0.0	0.0	EV/Sales (x)	1.3	2.1	0.8	0.8	
NPAT post abnormal	-11.3	20.2	-6.7	23.7	9.8	EV/EBITDA (x)	4.3	-10.7	2.5	5.6	
						EV/EBIT (x)	4.7	-7.7	2.9	8.7	
<b>Cash flow statement</b>	<b>2006A</b>	<b>2007A</b>	<b>2008F</b>	<b>2009F</b>	<b>2010F</b>	PE (pre-goodwill) (x)	7.9	-19.9	5.7	13.7	
EBITDA	-12.6	16.6	-7.5	23.4	8.2						
Change in working capital	2.6	-0.5	5.5	-3.7	1.8	<b>At target price</b>	<b>2007A</b>	<b>2008F</b>	<b>2009F</b>	<b>2010F</b>	
Net interest (pd)/rec	2.3	2.5	3.7	3.2	4.5	EV/EBITDA (x)	9.1	-21.2	5.9	15.1	
Taxes paid	0.0	2.3	0.0	0.0	0.0	PE (pre-goodwill) (x)	12.5	-31.5	9.0	21.8	
Other oper cash items	0.0	0.0	0.0	0.0	0.0	<b>Comparable company data (x)</b>		<b>2008F</b>	<b>2009F</b>	<b>2010F</b>	
Cash flow from ops (1)	-7.7	21.0	1.8	22.9	14.5	Avexa	EV/EBITDA	-2.4	-4.1	-38.0	
Capex (2)	-1.9	-0.9	-1.2	-1.4	-1.4	Year to 30 Jun	EV/EBIT	-2.4	-4.1	-37.0	
Disposals/(acquisitions)	0.0	0.0	0.0	0.0	0.0		PE	-4.3	-5.7	-76.7	
Other investing cash flow	0.0	0.0	0.0	0.0	0.0	Pharmaxis	EV/EBITDA	-6.8	-5.8	-10.8	
Cash flow from invest (3)	-1.9	-0.9	-1.2	-1.4	-1.4	Year to 30 Jun	EV/EBIT	-6.6	-5.4	-9.1	
Incr/(decr) in equity	31.8	1.4	-9.0	0.0	0.0		PE	-11.0	-9.4	-16.1	
Incr/(decr) in debt	-0.8	0.0	0.0	0.0	0.0	<b>Per share data</b>	<b>2007A</b>	<b>2008F</b>	<b>2009F</b>	<b>2010F</b>	
Ordinary dividend paid	0.0	0.0	0.0	0.0	0.0	No. shares	180.0	171.0	171.0	171.0	
Preferred dividends (4)	0.0	0.0	0.0	0.0	0.0	EPS (cps)	11.2	-3.9	13.9	5.7	
Other financing cash flow	0.0	0.0	0.0	0.0	0.0	EPS (normalised) (c)	9.9	-4.0	13.8	5.7	
Cash flow from fin (5)	31.0	1.4	-9.0	0.0	0.0	Dividend per share (c)	0.0	0.0	0.0	0.0	
Forex and disc ops (6)	0.0	0.0	0.0	0.0	0.0	Dividend payout ratio (%)	0.0	0.0	0.0	0.0	
Incr/(decr) cash (1+3+5+6)	21.4	21.5	-8.4	21.5	13.2	Dividend yield (%)	0.0	0.0	0.0	0.0	
<b>Equity FCF (1+2+4)</b>	<b>-9.6</b>	<b>20.1</b>	<b>0.6</b>	<b>21.5</b>	<b>13.2</b>	<b>Growth ratios</b>	<b>2007A</b>	<b>2008F</b>	<b>2009F</b>	<b>2010F</b>	
						Sales growth	331.1%	-29.5%	86.1%	-23.9%	
<b>Balance sheet</b>	<b>2006A</b>	<b>2007A</b>	<b>2008F</b>	<b>2009F</b>	<b>2010F</b>	Operating cost growth	51.0%	20.9%	5.1%	-4.2%	
Cash & deposits	46.2	62.2	53.7	75.2	88.4	EBITDA growth				-64.8%	
Trade debtors	5.9	9.4	4.8	8.9	6.7	EBITA growth				-74.2%	
Inventory	0.0	0.0	0.0	0.0	0.0	<b>Operating performance</b>	<b>2007A</b>	<b>2008F</b>	<b>2009F</b>	<b>2010F</b>	
Investments	0.0	0.0	0.0	0.0	0.0	Asset turnover (%)	18.3	11.4	20.0	12.9	
Goodwill						EBITDA margin (%)	30.3	-19.4	32.5	15.0	
Other intangible assets	0.0	13.4	11.9	10.3	8.6	EBIT margin (%)	28.1	-27.1	28.4	9.6	
Fixed assets	5.5	5.2	5.0	5.0	5.0	Net profit margin (%)	32.7	-17.5	32.9	17.9	
Other assets	0.0	2.3	2.3	2.3	2.3	Return on net assets (%)	21.5	-18.8	25.7	5.9	
<b>Total assets</b>	<b>57.6</b>	<b>92.5</b>	<b>77.7</b>	<b>101.7</b>	<b>111.2</b>	Net debt (A\$m)	-62.2	-53.7	-75.2	-88.4	
Short-term borrowings	0.0	0.0	0.0	0.0	0.0	Net debt/equity (%)	-86.9	-96.2	-94.6	-99.1	
Trade payables	4.0	6.0	7.0	7.3	7.0	Net interest/EBIT cover (x)	-6.1	2.8	-6.3	-1.2	
Long-term borrowings	0.0	0.0	0.0	0.0	0.0	ROIC (%)	1506.1	-78.3	682.1	86.6	
Provisions	0.0	0.0	0.0	0.0	0.0	<b>Internal liquidity</b>	<b>2007A</b>	<b>2008F</b>	<b>2009F</b>	<b>2010F</b>	
Other liabilities	6.6	14.9	14.9	14.9	14.9	Current ratio (x)	3.4	2.7	3.8	4.3	
<b>Total liabilities</b>	<b>10.7</b>	<b>20.9</b>	<b>21.9</b>	<b>22.2</b>	<b>21.9</b>	Receivables turnover (x)	7.2	5.5	10.6	7.0	
Share capital	158.0	161.7	146.0	169.6	179.4	Payables turnover (x)	7.6	7.1	6.8	6.5	
Other reserves	-0.1	0.6	0.6	0.6	0.6						
Retained earnings	-111.0	-90.8	-90.8	-90.8	-90.8						
Other equity	0.0	0.0	0.0	0.0	0.0						
Total equity	46.9	71.5	55.8	79.5	89.3						
Minority interest											
Total shareholders' equity	46.9	71.5	55.8	79.5	89.3						
<b>Total liabilities &amp; SE</b>	<b>57.6</b>	<b>92.5</b>	<b>77.7</b>	<b>101.7</b>	<b>111.2</b>						

Priced as at 25 July 2008.  
Source: Company data, ABN AMRO Morgans forecasts

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For listed property trusts (LPTs) the recommendation is based upon the target price plus the dividend yield, ie total return. A Buy implies a total return of 10% or more; a Hold 5-10%; and a Sell less than 5%.

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A rating of Low indicates very little movement in price over the previous year (Coefficient of Variation < 4 for small caps or < 5 for large caps). A Moderate rating implies average price movement over the previous year (Coefficient of Variation of 9 - 21 for small caps or 7.25 - 15 for large caps). A High rating implies significant price movement over the past year (Coefficient of Variation greater than 25 for small caps or 35 for large caps).

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Subject companies: BTA.AX.

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