



5 August 2008

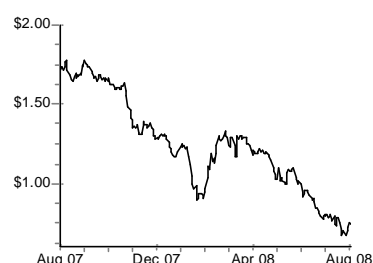
\$0.74

BUY

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Price Performance



Security/Capital Details

ASX Code	BTA
Market Cap	\$132 M
Issued Shares	181.0 M
Avg Mth T'over	9.27 M
12 Mth High – Low	\$1.78 - \$0.67

Key Data/Ratios – FY 2008

Cash	\$56.1M
Burn	\$46.5M
EV	\$85.5M
Interest Cover	x
ROE	-10.7%
EPS Growth	-122.9%
PEG Ratio	0.16 x
NTA / Share	\$ 0.25
DCF	\$ 1.32
12 Mth Price Target	\$ 1.42

BUY: Total return +10% or more over a 12 month period

HOLD: Total return expected to be between +10% to -10% over a 12-month period

SELL: Total return expected to be -10% or more over a 12 month period

TOTAL RETURN OR TSR = capital growth in share price + expected dividend yield in that period

Recommendation

We retain our **BUY** recommendation and 12 month price target of 142 cps.

BTA will release its FY08 result on 25 August. Our revised forecasts include a loss of \$6.8M after tax for FY08. The main factors contributing to this loss are increased litigation costs in the 2H combined with weakness in the indicative Relenza royalty stream. Costs elsewhere in the business remain in line with our expectations. We reiterate our positive view on BTA as key programs move into the Phase II and III clinical stage of testing by the end of CY2008.

Key Points

June yr-end	FY07	FY08e	% Chg	FY09e
Royalty Revenue	39.7	20.5	(48.4)	21.3
Other revenue	16.0	14.6	(9.1)	15.0
EBITDA	16.6	(11.5)	(169.2)	11.2
NPAT	20.1	(6.8)	(133.9)	12.7
EPS	11.2	(3.8)	(133.6)	7.3

- BTA will release its FY08 result on 25 August. Our forecasts include a loss of \$6.8M (NPAT). Increased legal expenses due to the early settlement of the GSK litigation matter and a weaker Relenza performance over the 2H have made the largest contributions to this year's result.
- **Balance sheet.** We expect the company will close FY08 with approximately \$56M in cash. The outlook for FY09 and FY10 is cash neutrality.
- **R&D expenditure.** R&D expenditure for FY08 was approximately \$9.1 million, up 11% from FY07. Expenditure will be higher in FY09 with the BTA-798 Phase II clinical trial expected to absorb \$15M.
- **Risks.** BTA's earnings will remain lumpy. The Relenza outlook was described in our note of 1 July 2008, but is best regarded as an average \$26-30M per annum revenue stream, with high volatility. BTA may also receive milestone payments from their partnered RSV and HCV programs, though the timing and size of those payments is uncertain. BTA also faces clinical and regulatory risks in developing their portfolio of drug development projects.
- **Share price.** The prevailing market price reflects cash and the approximate NPV of expected aggregate Relenza royalties to 2013 and nothing else. By the end of the year we expect the HRV program to initiate Phase II and the LANI program to initiate Phase III clinical trials. Neither program is captured in the current share price, in our view.
- **Valuation** – our 142 cps share price target is retained. BUY recommendation.

Year to June	NPAT (Rep) \$M	EPS (Norm) c	EPS Growth %	PER x	P/CF x	EV/EBITDA x	DPS c	Div Yld %	Franking %
2007a	20.2	11.4	280.3	10.6	10.3	8.0	0.0	0.0	0
2008e	-6.8	-2.6	-122.9	-30.8	-82.5	-7.8	0.0	0.0	0
2009e	14.1	8.8	439.6	9.1	24.7	8.1	0.0	0.0	0
2010e	12.2	7.8	-11.9	10.3	37.4	9.7	0.0	0.0	0

Biota Holdings (BTA : \$0.74)

INVESTMENT FUNDAMENTALS

Yr Ending June	2006A	2007A	2008E	2009E	2010E
EPS Reported (c)	-6.3	11.2	-3.8	7.8	6.7
EPS Normalised (c)	-6.3	11.4	-2.6	8.8	7.8
EPS Growth (%)	N/A	280.3%	-122.9%	439.6%	-11.9%
PER Normalised (x)	-19.1	10.6	-30.8	9.1	10.3
DPS (c)	0.0	0.0	0.0	0.0	0.0
Payout (%)	0.0%	0.0%	0.0%	0.0%	0.0%
Yield (%)	0.0%	0.0%	0.0%	0.0%	0.0%
Franking (%)	0%	0%	0%	0%	0%

VALUATION DATA

Yr Ending June	2006A	2007A	2008E	2009E	2010E
EV / EBITA (x)	-12.5	8.6	-7.3	8.5	10.4
EV / EBITDA (x)	-13.4	8.0	-7.8	8.1	9.7
CFPS (c)	-4.3	11.6	-1.0	3.2	2.1
Price / CF	-28.0	10.3	-82.5	24.7	37.4
Book Value / Share (\$)	0.3	0.4	0.3	0.3	0.4
Price / Book (x)	4.6	3.0	2.6	2.4	2.0

PROFIT & LOSS (\$m)

Yr Ending June	2006A	2007A	2008E	2009E	2010E
Sales Revenue	11.6	55.8	20.5	21.3	27.6
EBITDA	-12.6	19.2	-11.5	11.2	9.1
Depreciation	1.0	1.2	0.7	0.6	0.6
EBITA	-13.6	18.0	-12.1	10.6	8.5
Amortisation	0.0	0.3	2.1	1.9	1.9
EBIT	-13.6	17.7	-14.3	8.7	6.6
Net Interest Expense	-2.3	-2.5	-4.4	-5.4	-5.6
Pre-tax Profit	-11.3	20.2	-9.8	14.1	12.2
Tax	0.0	0.0	-3.0	0.0	0.0
Tax rate (%)	0.0%	0.0%	30.6%	0.0%	0.0%
Minorities / pref divs	0.0	0.0	0.0	0.0	0.0
Equity accounted NPAT	0.0	0.0	0.0	0.0	0.0
Net Profit	-11.3	20.2	-6.8	14.1	12.2
Abn's / Extraord's	0.0	0.0	0.0	0.0	0.0
Reported Net Profit	-11.3	20.2	-6.8	14.1	12.2
Revenue Growth (%)	N/A	380.6%	-63.3%	3.9%	29.7%
EBIT Growth (%)	N/A	230.3%	-180.7%	161.0%	-24.1%
NPAT Growth (%)	N/A	278.5%	-133.8%	306.4%	-13.5%

PROFITABILITY RATIOS

Yr Ending June	2006A	2007A	2008E	2009E	2010E
EBIT / Sales (%)	-116.8%	31.7%	-69.6%	40.9%	23.9%
ROA (%)	N/A	84.8%	-55.3%	36.6%	24.4%
ROE (%)	N/A	34.1%	-10.7%	24.0%	18.3%
ROFE (%)	N/A	356.2%	-258.7%	295.5%	77.2%

INTERIMS (\$m)

Half Yr	Dec 06	Jun 07	Dec 07	Jun 08	Dec 08
Yr Ending June	1H A	2H A	1H A	2H E	1H E
Sales Revenue	20.3	35.6	16.5	4.0	8.5
EBIT	2.9	14.7	5.7	-20.0	4.7
Net Profit	4.1	16.1	5.5	-12.3	7.5
EBIT / Sales (%)	14.5%	41.4%	34.6%	-497.2%	55.4%

BALANCE SHEET (\$m)

Yr Ending June	2006A	2007A	2008E	2009E	2010E
Cash	46.2	62.2	56.1	54.4	56.4
Receivables	5.9	9.4	4.0	3.3	4.3
Inventories	0.0	0.0	0.0	0.0	0.0
Other	0.0	0.0	0.0	0.0	0.0
Current Assets	52.1	71.5	60.1	57.7	60.7
Net PPE	5.5	4.9	5.5	6.4	7.6
Investments	0.0	0.0	0.0	0.0	0.0
Intangibles	0.0	13.7	11.6	9.7	7.8
Other	0.0	2.4	0.0	7.0	8.0
Non-current Assets	5.5	21.0	17.1	23.1	23.5
Total Assets	57.6	92.5	77.2	80.8	84.2
Current Payables	4.0	6.0	6.5	6.7	7.0
Current Debt	0.0	0.0	0.0	0.0	0.0
Non-Current Debt	0.0	0.0	0.0	0.0	0.0
Provisions	0.6	7.4	3.2	2.3	1.9
Other	6.0	7.5	11.5	10.2	4.0
Total Liabilities	10.7	20.9	21.1	19.2	12.9
Equity	158.0	161.7	159.1	153.1	153.1
Reserves	-0.1	0.6	0.8	0.8	0.8
Retained Profits	-111.0	-90.8	-103.9	-92.3	-82.6
Minorities	0.0	0.0	0.0	0.0	0.0
Total Equity	46.9	71.5	56.0	61.6	71.3
Total Funds Employed	0.7	9.4	0.0	7.2	14.9

CASHFLOW (\$m)

Yr Ending June	2006A	2007A	2008E	2009E	2010E
EBIT	-13.6	17.7	-14.3	8.7	6.6
Dep'n and Amort'n	1.0	1.6	2.8	2.5	2.5
Net Int Rec'd (Paid)	2.3	2.5	3.8	5.4	5.6
Tax Paid	0.0	0.0	0.0	0.0	0.0
Dec / (Inc) W'kg Cap	1.8	-4.7	5.9	0.9	-0.7
Other	6.8	4.0	3.4	0.0	0.0
Operating Cash Flow	-7.7	21.0	-1.7	5.9	3.9
Capital Expenditure	-2.0	-0.9	-1.4	-1.5	-1.9
Asset Sales	0.1	0.0	0.0	0.0	0.0
Investments	0.0	-5.5	0.0	0.0	0.0
Other Inv. Flows	0.0	0.0	0.0	0.0	0.0
Investing Cash Flow	-1.9	-6.4	-1.4	-1.5	-1.9
Equity Raised	31.9	1.4	0.0	0.0	0.0
Inc / (Dec) in Loans	0.0	0.0	0.0	0.0	0.0
Dividends Paid	0.0	0.0	0.0	0.0	0.0
Other Fin. Flows	-0.9	0.0	-3.0	-6.0	0.0
Financing Cash Flow	31.0	1.4	-3.0	-6.0	0.0
Net Cash Flow	21.4	16.0	-6.1	-1.6	2.0

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