

23 January 2009

# Biota Holdings

## Take a deep breath and let us go

### 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.**

### High Volatility

**Target price**  
A\$0.60 (from A\$0.69)

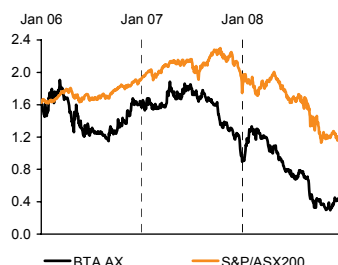
**Price**  
A\$0.44

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

BTA90123

### Price performance

	(1M)	(3M)	(12M)
Price (A\$)	0.32	0.41	0.89
Absolute (%)	37.5	6.0	-50.8
Rel market (%)	40.3	26.4	-26.9
Rel sector (%)	46.1	-1.1	-44.7



**Market capitalisation**  
A\$75.24m (US\$49.42m)

**Average (12M) daily turnover**  
A\$0.29m (US\$0.25m)

RIC: BTA.AX, BTA AU  
Priced at close of business 22 Jan 2009.  
Source: Bloomberg

### Analysts

**Scott Power**  
+61 7 3334 4884  
scottp@abnamromorgans.com.au

**Tanya Solomon**  
+61 7 3334 4521  
tsolomon@abnamromorgans.com.au

ABN AMRO Morgans Limited  
(A.B.N. 49 010 669 726) AFSL235410  
A Participant of ASX Group

[www.abnamromorgans.com.au](http://www.abnamromorgans.com.au)

**Better Relenza numbers, recruitment of clinical trial on track, solid cash position and resistance growing to competitor product makes BTA a compelling story. Buy for rally to price target of A\$0.60.**

### Key forecasts

	FY07A	FY08A	FY09F	FY10F	FY11F
EBITDA (A\$m)	16.60	-9.78	9.90	10.60	28.40
Reported net profit (A\$m)	20.20	-6.49	8.43	8.16	20.00
Normalised net profit (A\$m) <sup>1</sup>	20.20	-6.49	8.43	8.16	20.00
Normalised EPS (c) <sup>1</sup>	11.20	-3.79	4.93	4.77	11.70
Normalised EPS growth (%)	n/a	n/a	n/a	-3.18	144.6
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)	3.91	n/m	8.92	9.22	3.77
EV/EBITDA (x)	0.79	n/m	1.17	0.21	n/m
Price/net oper. CF (x)	3.77	15.60	16.60	6.66	3.66
ROIC (%)	1,506	-93.4	140.6	61.80	253.5

1. Pre non-recurring items and post preference dividends  
Accounting standard: IFRS  
Source: Company data, ABN AMRO Morgans forecasts

year to Jun, fully diluted

### Quarterly Relenza expected to show improvement

The release of the 4Q Relenza sales from GlaxoSmithKline (GSK) are due 5 February (or 6 February Australian time). The 2Q and 3Q result were disappointing, however 4Q is seasonally stronger. Anecdotal evidence suggests GSK is becoming more active in the influenza market. Relenza royalties are difficult to predict, however and we are expecting a solid improvement on the GBP12m achieved for the 3Q, refer table 1 overleaf for details of previous quarters.

### Resistance to competitor growing and LANI on track

Overnight BTA's partner for the LANI programme, Daiichi Sankyo commented that enrolment in the trial was ahead of schedule. Our estimate is that recruitment could be finished by late February or early March with results expected by mid CY09. In other news on the 19 December 2008, the Centre for Disease Control (CDC) in the US issued an interim recommendation for the Use of Influenza Antiviral Medications. It noted that preliminary data from a limited number of states indicate that the prevalence of influenza A virus strains resistant to the antiviral medication oseltamivir (Tamiflu) is high. Therefore the CDC recommends when influenza A is suspected that zanamivir (Relenza) or a combination of Tamiflu and rimantadine (Flumadine) are more appropriate options than Tamiflu alone. Clearly this is positive for increased use of Relenza.

### Solid cash position

BTA is in a solid cash position. At 30 September 2008, cash reserves stood at A\$55.0m and a milestone payment was then received in October of A\$4.2m from collaboration partner AstraZenca. Given this solid cash position BTA has no funding issues.

### Investment view – 3 month price target set at A\$0.60

We have made no changes to our forecasts. Our DCF valuation remains at A\$1.15. The key assumptions in deriving the valuation include a rfr of 6.5%, WACC of 14.6% and a terminal growth rate of 3.5%. We have set of three month price target of A\$0.60 (was A\$0.69) reflecting where we expect the price to trade upon achievement of near-term milestones. Risks include a delay in partnering key projects or failure to achieve key end points.

**Important disclosures regarding companies that are the subject of this report and an explanation of recommendations and volatility can be found at the end of this document.**

## Background to LANI programme

The programme is a second generation influenza treatment (known as CS-8958 or a long acting neuraminidase inhibitor – LANI) and is partnered with Japanese Group Daiichi-Sankyo. Earlier this year a Phase II study demonstrated that a single inhaled dose of LANI was statistically indistinguishable from 75 mg of oseltamivir (Tamiflu a competitive product) twice a day for five days in patients with confirmed, naturally acquired, influenza A or B. The Phase III trial is to be conducted at three to four centres in various Asian countries (Japan, Taiwan, Hong Kong and Korea).

## Relenza quarterly historical

**Table 1 : Relenza historical quarterly results**

GBP (m)	1Q07	2Q07	3Q07	4Q07	CY07	1Q08	2Q08	3Q08	% change on pp	% change on pcp
US	44	34	12	41	131	8	2	5	150%	-58%
EU	32	26	14	4	76	0	1	0	nm	-100%
ROW	16	7	2	30	55	21	0	7	nm	250%
Total	92	67	28	75	262	29	3	12	300%	-57%

Source: Company data, ABN AMRO Morgans

## Milestones to watch

**Table 2 : Upcoming milestones to watch**

Product	Timing	Milestone	Impact
LANI	July 2008	Results of Phase II trial	Achieved
HRV	3QCY08	Start Phase IIa challenge trial – dosing stage	Achieved
LANI	1QCY09	Complete recruitment Phase III LANI	Positive
Relenza	1QCY09	Improving Relenza royalties from GSK	Positive

Source: ABN AMRO Morgans

**BTA – financial summaries**

Year to 30 Jun (A\$m)	AIFRS 2007A	AIFRS 2008A	AIFRS 2009F	AIFRS 2010F	AIFRS 2011F	Closing price (A\$)	0.440	Price target (A\$)	0.60		
<b>Income statement</b>	<b>2007A</b>	<b>2008A</b>	<b>2009F</b>	<b>2010F</b>	<b>2011F</b>	<b>Valuation metrics</b>					
Divisional sales	54.8	41.7	63.8	54.5	45.8	Preferred methodology	DCF	Val'n (A\$)	\$ 1.17		
Total revenue	54.8	41.7	63.8	54.5	45.8	<b>DCF valuation inputs</b>					
<b>EBITDA</b>	<b>16.6</b>	<b>-9.8</b>	<b>9.9</b>	<b>10.6</b>	<b>28.4</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	-1.2	-2.7	-3.6	-3.5	-3.5	Beta	1.80	Kd	8.50%		
EBITA	15.4	-12.5	6.3	7.1	24.9	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)	132.7		
EBIT	15.4	-12.5	6.3	7.1	24.9	Debt (D/EV)	0.0%	Minority interest (A\$m)	0.0		
EBIT(incl associate profit)	15.4	-12.5	6.3	7.1	24.9	Interest rate	8.50%	Net debt (A\$m)	-63.7		
Net interest expense	2.5	3.2	3.6	3.8	4.4	Tax rate (t)	30.0%	Investments (A\$m)	0.0		
Pre-tax profit	17.9	-9.3	9.9	11.0	29.2	Franking credit	100.0%	Equity market value (A\$m)	196.3		
Income tax expense	2.3	2.8	-1.5	-2.8	-9.3	<b>WACC</b>	14.6%	Diluted no. of shares (m)	171.0		
After-tax profit	20.2	-6.5	8.4	8.2	20.0			<b>DCF valuation (A\$)</b>	<b>1.15</b>		
Minority interests						<b>Multiples</b>		<b>2008A</b>	<b>2009F</b>	<b>2010F</b>	<b>2011F</b>
<b>NPAT</b>	<b>20.2</b>	<b>-6.5</b>	<b>8.4</b>	<b>8.2</b>	<b>20.0</b>	Enterprise value (A\$m)	15.1	11.6	2.2	-16.5	
Significant items	0.0	0.0	0.0	0.0	0.0	EV/Sales (x)	0.4	0.2	0.0	-0.4	
NPAT post abnormals	20.2	-6.5	8.4	8.2	20.0	EV/EBITDA (x)	-1.5	1.2	0.2	-0.6	
						EV/EBIT (x)	-1.2	1.8	0.3	-0.7	
<b>Cash flow statement</b>	<b>2007A</b>	<b>2008A</b>	<b>2009F</b>	<b>2010F</b>	<b>2011F</b>	PE (pre-goodwill) (x)	-11.6	8.9	9.2	3.8	
EBITDA	16.6	-9.8	9.9	10.6	28.4	<b>At target price</b>		<b>2008A</b>	<b>2009F</b>	<b>2010F</b>	<b>2011F</b>
Change in working capital	-0.5	8.6	-7.5	-0.4	-2.9	EV/EBITDA (x)	-4.3	3.9	2.7	0.4	
Net interest (pd)/rec	2.5	3.2	3.6	3.8	4.4	PE (pre-goodwill) (x)	-15.7	12.1	12.5	5.1	
Taxes paid	2.3	2.8	-1.5	-2.8	-9.3	<b>Comparable company data (x)</b>		<b>2009F</b>	<b>2010F</b>	<b>2011F</b>	
Other oper cash items	0.0	0.0	0.0	0.0	0.0	Avexa	EV/EBITDA	-0.6	-15.4	1.1	
Cash flow from ops (1)	21.0	4.8	4.5	11.3	20.6	Year to 30 Jun	EV/EBIT	-0.6	-13.8	1.2	
Capex (2)	-0.9	-3.8	-1.0	-1.9	-1.8		PE	-1.4	-59.0	2.7	
Disposals/(acquisitions)	0.0	0.0	0.0	0.0	0.0	Pharmaxis	EV/EBITDA	-6.4	-11.2	18.6	
Other investing cash flow	0.0	0.0	0.0	0.0	0.0	Year to 30 Jun	EV/EBIT	-6.2	-10.2	23.2	
Cash flow from invest (3)	-0.9	-3.8	-1.0	-1.9	-1.8		PE	-11.2	-16.6	21.4	
Incr/(decr) in equity	1.4	-3.0	0.0	0.0	0.0	<b>Per share data</b>		<b>2008A</b>	<b>2009F</b>	<b>2010F</b>	<b>2011F</b>
Incr/(decr) in debt	0.0	0.0	0.0	0.0	0.0	No. shares	171.0	171.0	171.0	171.0	
Ordinary dividend paid	0.0	0.0	0.0	0.0	0.0	EPS (cps)	-3.8	4.9	4.8	11.7	
Preferred dividends (4)	0.0	0.0	0.0	0.0	0.0	EPS (normalised) (c)	-3.8	4.9	4.8	11.7	
Other financing cash flow	0.0	0.0	0.0	0.0	0.0	Dividend per share (c)	0.0	0.0	0.0	0.0	
Cash flow from fin (5)	1.4	-3.0	0.0	0.0	0.0	Dividend payout ratio (%)	0.0	0.0	0.0	0.0	
Forex and disc ops (6)	0.0	0.0	0.0	0.0	0.0	Dividend yield (%)	0.0	0.0	0.0	0.0	
Incr/(decr) cash (1+3+5+6)	21.5	-2.0	3.5	9.4	18.7	<b>Growth ratios</b>		<b>2008A</b>	<b>2009F</b>	<b>2010F</b>	<b>2011F</b>
<b>Equity FCF (1+2+4)</b>	<b>20.1</b>	<b>1.0</b>	<b>3.5</b>	<b>9.4</b>	<b>18.7</b>	Sales growth	-23.8%	52.9%	-14.6%	-16.0%	
						Operating cost growth	35.0%	4.7%	-18.6%	-60.3%	
<b>Balance sheet</b>	<b>2007A</b>	<b>2008A</b>	<b>2009F</b>	<b>2010F</b>	<b>2011F</b>	EBITDA growth				166.8%	
Cash & deposits	62.2	60.2	63.7	73.0	91.8	EBITA growth				248.5%	
Trade debtors	9.4	4.3	7.9	6.7	5.6	<b>Operating performance</b>		<b>2008A</b>	<b>2009F</b>	<b>2010F</b>	<b>2011F</b>
Inventory	0.0	0.0	0.0	0.0	0.0	Asset turnover (%)	11.5	17.4	14.0	10.6	
Investments	0.0	0.0	0.0	0.0	0.0	EBITDA margin (%)	-23.4	15.5	19.5	62.0	
Goodwill						EBIT margin (%)	-30.0	9.9	13.1	54.3	
Other intangible assets	13.4	12.1	10.4	8.8	7.1	Net profit margin (%)	-15.5	13.2	15.0	43.6	
Fixed assets	5.2	7.5	6.7	6.8	6.8	Return on net assets (%)	-19.8	8.8	8.9	24.9	
Other assets	2.3	5.2	5.2	5.2	5.2	Net debt (A\$m)	-60.2	-63.7	-73.0	-91.8	
<b>Total assets</b>	<b>92.5</b>	<b>89.3</b>	<b>93.8</b>	<b>100.4</b>	<b>116.4</b>	Net debt/equity (%)	-95.0	-88.7	-91.4	-91.9	
Short-term borrowings	0.0	0.0	0.0	0.0	0.0	Net interest/EBIT cover (x)	3.9	-1.7	-1.9	-5.7	
Trade payables	6.0	12.0	8.1	6.6	2.6	ROIC (%)	-93.4	140.6	61.8	253.5	
Long-term borrowings	0.0	0.0	0.0	0.0	0.0	<b>Internal liquidity</b>		<b>2008A</b>	<b>2009F</b>	<b>2010F</b>	<b>2011F</b>
Provisions	0.0	0.0	0.0	0.0	0.0	Current ratio (x)	2.5	3.2	3.9	5.9	
Other liabilities	14.9	13.9	13.9	13.9	13.9	Receivables turnover (x)	6.1	10.5	7.5	7.4	
<b>Total liabilities</b>	<b>20.9</b>	<b>26.0</b>	<b>22.1</b>	<b>20.5</b>	<b>16.6</b>	Payables turnover (x)	5.7	5.4	6.0	3.8	
Share capital	161.7	159.1	167.6	175.7	195.7						
Other reserves	0.6	1.4	1.4	1.4	1.4						
Retained earnings	-90.8	-97.3	-97.3	-97.3	-97.3						
Other equity	0.0	0.0	0.0	0.0	0.0						
Total equity	71.5	63.3	71.7	79.9	99.9						
Minority interest											
Total shareholders' equity	71.5	63.3	71.7	79.9	99.9						
<b>Total liabilities &amp; SE</b>	<b>92.5</b>	<b>89.3</b>	<b>93.8</b>	<b>100.4</b>	<b>116.4</b>						

Source: Company data, ABN AMRO Morgans forecasts, Share price as at 22 Jan 2009

RESEARCH TEAM

ROGER LEANING	-	Head of Research	SCOTT POWER	-	Senior Analyst
CHRIS BROWN	-	Senior Analyst	TOM SARTOR	-	Analyst
FIONA BUCHANAN	-	Senior Analyst	TAMARA STRETCH	-	Analyst
NICK HARRIS	-	Analyst	TANYA SOLOMON	-	Analyst
MICHAEL KNOX	-	Director of Strategy & Chief Economist	PAUL STEVENSON	-	Analyst
JAMES LAWRENCE	-	Fixed Interest Analyst	REBECCA SULLIVAN	-	Retail Strategy
JOSEPHINE LITTLE	-	Analyst	SAM TURNER	-	Analyst
BELINDA MOORE	-	Senior Analyst			

ABN AMRO MORGANS OFFICES

<b>BRISBANE</b>	(07) 3334 4888	<b>CHATSWOOD</b>	(02) 9411 8988
BUNDABERG	(07) 4153 1050	COFFS HARBOUR	(02) 6651 5700
BURLEIGH HEADS	(07) 5520 8788	GOSFORD	(02) 4325 0884
CAIRNS	(07) 4052 9222	HURSTVILLE	(02) 9570 5755
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BALLINA	(02) 6686 4144	<b>HOBART</b>	(03) 6236 9000
BALMAIN	(02) 8755 3333		

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Subject companies: BTA.AX.

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