

30 January 2009

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

Price
A\$0.44

Short term (0-60 days)
n/a

BTA90130

Price performance

	(1M)	(3M)	(12M)
Price (A\$)	0.32	0.34	0.92
Absolute (%)	35.4	29.4	-52.2
Rel market (%)	39.0	39.8	-22.5
Rel sector (%)	41.8	12.4	-44.2



Market capitalisation
A\$75.24m (US\$49.64m)

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

RIC: BTA.AX, BTA AU
Priced at close of business 29 Jan 2009.
Source: Bloomberg

Analysts

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Biota Holdings

Timing is everything

Although the economic crisis is affecting most of what we do, there are a number of situations arising where well funded, newsflow-rich life science companies will deliver substantial returns to investors. However, a deft touch is required. BTA is an example.

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) ¹	20.20	-6.49	8.43	8.16	20.00
Normalised EPS (c) ¹	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

year to Jun, fully diluted

Accounting standard: IFRS

Source: Company data, ABN AMRO Morgans forecasts

Significant order received

BTA announced today that GlaxoSmithKline (GSK) has been awarded a significant contract by the UK Department of Health for 10.6m treatment courses of Relenza (zanamivir). This is part of a larger order for 18m treatment courses of antivirals by the UK Department of Health. While financial terms have not been disclosed, BTA estimates that when the contract is completed, it may represent royalty income of up to A\$18m. This positive announcement supports anecdotal evidence that GSK is becoming more active in the influenza market. It also highlights the desire of governments to diversify antiviral stockpiles to include both Relenza and Tamiflu.

So what is next.....

The release of the 4Q Relenza sales from GlaxoSmithKline (GSK) is due on 6 February. The

2Q and 3Q results were disappointing, although 4Q is seasonally stronger. 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. Also, BTA noted that its partner for the LANI program, Daiichi Sankyo, commented that enrolment in the trial was ahead of schedule. We estimate recruitment could be finished by late February or early March, with results expected by mid CY09.

Solid cash position

BTA is in a solid cash position, with A\$55.0m in cash reserves as at 30 September 2008. Consequently, BTA has no funding issues, which is positive in this environment.

Investment view – target price A\$0.60

We have made no changes to our forecasts, which with today's news should be comfortably achieved. Our DCF valuation remains at A\$1.15. We set our target price at A\$0.60 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.

Table 1 : Relenza sales

(£m)	1Q07	2Q07	3Q07	4Q07	CY07	1Q08	2Q08	3Q08	% chg on pcp	% chg 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: GSK, ABN AMRO Morgans

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: Company data, ABN AMRO Morgans

BTA – financial summary

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		
Income statement	2007A	2008A	2009F	2010F	2011F	Valuation metrics					
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	DCF valuation inputs					
EBITDA	16.6	-9.8	9.9	10.6	28.4	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	WACC	14.6%	Diluted no. of shares (m)	171.0		
After-tax profit	20.2	-6.5	8.4	8.2	20.0			DCF valuation (A\$)	1.15		
Minority interests						Multiples		2008A	2009F	2010F	2011F
NPAT	20.2	-6.5	8.4	8.2	20.0	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	
Cash flow statement	2007A	2008A	2009F	2010F	2011F	PE (pre-goodwill) (x)	-11.6	8.9	9.2	3.8	
EBITDA	16.6	-9.8	9.9	10.6	28.4						
Change in working capital	-0.5	8.6	-7.5	-0.4	-2.9	At target price					
Net interest (pd)/rec	2.5	3.2	3.6	3.8	4.4	EV/EBITDA (x)	-4.3	3.9	2.7	0.4	
Taxes paid	2.3	2.8	-1.5	-2.8	-9.3	PE (pre-goodwill) (x)	-15.7	12.1	12.5	5.1	
Other oper cash items	0.0	0.0	0.0	0.0	0.0	Comparable company data (x)		2009F	2010F	2011F	
Cash flow from ops (1)	21.0	4.8	4.5	11.3	20.6	Avexa	EV/EBITDA	-0.5	-13.6	0.9	
Capex (2)	-0.9	-3.8	-1.0	-1.9	-1.8	Year to 30 Jun	EV/EBIT	-0.5	-12.1	1.0	
Disposals/(acquisitions)	0.0	0.0	0.0	0.0	0.0		PE	-1.3	-54.4	2.5	
Other investing cash flow	0.0	0.0	0.0	0.0	0.0	Pharmaxis	EV/EBITDA	-6.2	-10.9	18.0	
Cash flow from invest (3)	-0.9	-3.8	-1.0	-1.9	-1.8	Year to 30 Jun	EV/EBIT	-6.0	-9.9	22.5	
Incr/(decr) in equity	1.4	-3.0	0.0	0.0	0.0		PE	-10.9	-16.2	20.9	
Incr/(decr) in debt	0.0	0.0	0.0	0.0	0.0	Per share data		2008A	2009F	2010F	2011F
Ordinary dividend paid	0.0	0.0	0.0	0.0	0.0	No. shares	171.0	171.0	171.0	171.0	
Preferred dividends (4)	0.0	0.0	0.0	0.0	0.0	EPS (cps)	-3.8	4.9	4.8	11.7	
Other financing cash flow	0.0	0.0	0.0	0.0	0.0	EPS (normalised) (c)	-3.8	4.9	4.8	11.7	
Cash flow from fin (5)	1.4	-3.0	0.0	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)	21.5	-2.0	3.5	9.4	18.7	Dividend yield (%)	0.0	0.0	0.0	0.0	
Equity FCF (1+2+4)	20.1	1.0	3.5	9.4	18.7	Growth ratios		2008A	2009F	2010F	2011F
						Sales growth	-23.8%	52.9%	-14.6%	-16.0%	
Balance sheet	2007A	2008A	2009F	2010F	2011F	Operating cost growth	35.0%	4.7%	-18.6%	-60.3%	
Cash & deposits	62.2	60.2	63.7	73.0	91.8	EBITDA growth				166.8%	
Trade debtors	9.4	4.3	7.9	6.7	5.6	EBITA growth				248.5%	
Inventory	0.0	0.0	0.0	0.0	0.0	Operating performance		2008A	2009F	2010F	2011F
Investments	0.0	0.0	0.0	0.0	0.0	Asset turnover (%)	11.5	17.4	14.0	10.6	
Goodwill						EBITDA margin (%)	-23.4	15.5	19.5	62.0	
Other intangible assets	13.4	12.1	10.4	8.8	7.1	EBIT margin (%)	-30.0	9.9	13.1	54.3	
Fixed assets	5.2	7.5	6.7	6.8	6.8	Net profit margin (%)	-15.5	13.2	15.0	43.6	
Other assets	2.3	5.2	5.2	5.2	5.2	Return on net assets (%)	-19.8	8.8	8.9	24.9	
Total assets	92.5	89.3	93.8	100.4	116.4	Net debt (A\$m)	-60.2	-63.7	-73.0	-91.8	
Short-term borrowings	0.0	0.0	0.0	0.0	0.0	Net debt/equity (%)	-95.0	-88.7	-91.4	-91.9	
Trade payables	6.0	12.0	8.1	6.6	2.6	Net interest/EBIT cover (x)	3.9	-1.7	-1.9	-5.7	
Long-term borrowings	0.0	0.0	0.0	0.0	0.0	ROIC (%)	-93.4	140.6	61.8	253.5	
Provisions	0.0	0.0	0.0	0.0	0.0	Internal liquidity		2008A	2009F	2010F	2011F
Other liabilities	14.9	13.9	13.9	13.9	13.9	Current ratio (x)	2.5	3.2	3.9	5.9	
Total liabilities	20.9	26.0	22.1	20.5	16.6	Receivables turnover (x)	6.1	10.5	7.5	7.4	
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						
Total liabilities & SE	92.5	89.3	93.8	100.4	116.4						

Source: Company data, ABN AMRO Morgans forecasts

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Absolute performance, long-term (fundamental) recommendation: The recommendation is based on implied upside/downside for the stock from the target price. A Buy/Sell implies upside/downside of 10% or more and a Hold less than 10%. The target price is the level the stock should currently trade at if the market accepted the analyst's view of the stock, provided the necessary catalysts are in place to effect the change in perception. If it is felt that the catalysts are not fully in place to effect a re-rating of the stock to its warranted value the target price will differ from 'fair' value. Given the volatility of share prices and our pre-disposition not to change recommendations frequently, these performance parameters should be interpreted flexibly. Performance in this context only reflects capital appreciation and the horizon is 12 months.

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: BTAAX.

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