

18 February 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

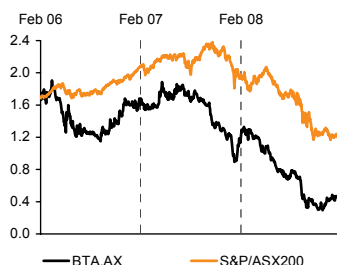
**Price**  
A\$0.465

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

**Market relative to region**  
Neutral

### Price performance

	(1M)	(3M)	(12M)
Price (A\$)	0.41	0.43	1.24
Absolute (%)	13.4	8.1	-62.3
Rel market (%)	16.2	14.0	-39.1
Rel sector (%)	14.0	8.4	-56.3



**Market capitalisation**  
A\$79.51m (US\$51.00m)

**Average (12M) daily turnover**  
A\$0.25m (US\$0.21m)

RIC: BTA.AX, BTA AU  
Priced at close of business 17 Feb 2009.  
Source: Bloomberg

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# Biota Holdings

## Pass the tissue

**A solid cash position, 1H09 profit above expectations and growing concern surrounding a bad flu season should draw more interest in BTA. We maintain our Buy rating.**

### 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)	4.14	n/m	9.43	9.74	3.98
EV/EBITDA (x)	1.04	n/m	1.60	0.61	n/m
Price/net oper. CF (x)	3.99	16.50	17.50	7.04	3.87
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 forecasts

year to Jun, fully diluted

### 1H09 profit above our forecast

BTA's 1H09 profit was A\$7.2m, compared with our forecast of A\$3.4m. Revenue was A\$30.5m, which included A\$20m from the GSK litigation settlement, A\$3.8 from Relenza royalties, A\$5.6m from collaboration income and A\$1.1m from grant income. There is growing anecdotal evidence that influenza is increasing in certain geographies throughout the world. This will be positive for future orders of Relenza. Recently, GSK received an order from the UK government worth A\$18m to BTA. The timing of royalty revenue is difficult to predict, so we make no changes to our forecasts.

### Next key milestone

The next key milestone will be completing recruitment (expected 1QCY09) for the Phase 3

trial for a long-acting version of Relenza, results are expected mid-year. The trial is being conducted in Japan and is co-owned by Daiichi-Sankyo. Also, the release of the 1Q09 Relenza sales from GlaxoSmithKline (GSK) are expected in early April (the 4Q08 result was disappointing, see table 1), although GSK is becoming more active in the influenza market.

### Solid cash position

BTA is in a solid cash position. At 31 December 2008, cash reserves stood at A\$55.4m. Given this cash position BTA has no funding issues, which is positive in this environment.

### Investment view – price target of A\$0.60

Given changes to our WACC assumptions, our DCF valuation has decreased to A\$1.11 (was A\$1.15). The key assumptions in deriving the valuation include a risk-free rate of 5.25% (was 6.5%), WACC of 16.05% (was 14.6%) and a terminal growth rate of 3.5%. Our price target of A\$0.60 reflects the level at which we expect the shares to trade upon achievement of completing recruitment to Phase 3 trial in Japan. Risks include a delay in partnering key projects or failure to achieve key end points.

**Table 1 : Relenza sales**

GBP (m)	1Q06	2Q06	3Q06	4Q06	CY06	1Q07	2Q07	3Q07	4Q07	CY07	1Q08	2Q08	3Q08	4Q08	% change on pp	% change on pcp	CY08	% change on pcp
US		0	0	0	0	44	34	12	41	131	8	2	5	5	0%	-88%	20	-85%
EU		10	24	22	62	32	26	14	4	76	0	1	0	5	nm	25%	6	-92%
ROW		7	6	15	29	16	7	2	30	55	21	0	7	3	-57%	-90%	31	-44%
Total	7	17	30	37	91	92	67	28	75	262	29	3	12	13	8%	-83%	57	-78%

Source: Company data, 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: 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\$)	0.465	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\$)	\$ 1.11		
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	5.25%	10-year rate	5.25%		
Associate income	0.0	0.0	0.0	0.0	0.0	Rm-Rf	6.00%	Margin	2.0%		
Depreciation	-1.2	-2.7	-3.6	-3.5	-3.5	Beta	1.80	Kd	7.25%		
EBITA	15.4	-12.5	6.3	7.1	24.9	CAPM (Rf+Beta(Rm-Rf))	16.0%	Ke	16.1%		
Amortisation/impairment	0.0	0.0	0.0	0.0	0.0	Equity (E/EV)	100.0%	NPV cash flow (A\$m)	126.7		
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	7.25%	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)	190.3		
Income tax expense	2.3	2.8	-1.5	-2.8	-9.3	<b>WACC</b>	16.1%	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>1.11</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)	19.4	15.9	6.5	-12.3	
Significant items	0.0	0.0	0.0	0.0	0.0	EV/Sales (x)	0.5	0.2	0.1	-0.3	
NPAT post abnormals	20.2	-6.5	8.4	8.2	20.0	EV/EBITDA (x)	-2.0	1.6	0.6	-0.4	
						EV/EBIT (x)	-1.5	2.5	0.9	-0.5	
<b>Cash flow statement</b>	<b>2007A</b>	<b>2008A</b>	<b>2009F</b>	<b>2010F</b>	<b>2011F</b>	PE (pre-goodwill) (x)	-12.3	9.4	9.7	4.0	
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)	-4.4	4.0	2.8	0.4	
Net interest (pd)/rec	2.5	3.2	3.6	3.8	4.4	PE (pre-goodwill) (x)	-15.8	12.2	12.6	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	-0.5	-13.6	0.9	
Cash flow from ops (1)	21.0	4.8	4.5	11.3	20.6	Year to 30 Jun	EV/EBIT	-0.5	-12.1	1.0	
Capex (2)	-0.9	-3.8	-1.0	-1.9	-1.8		PE	-1.3	-54.4	2.5	
Disposals/(acquisitions)	0.0	0.0	0.0	0.0	0.0	Pharmaxis	EV/EBITDA	-5.0	-7.9	-23.2	
Other investing cash flow	0.0	0.0	0.0	0.0	0.0	Year to 30 Jun	EV/EBIT	-4.8	-7.3	-18.4	
Cash flow from invest (3)	-0.9	-3.8	-1.0	-1.9	-1.8		PE	-8.6	-10.1	-24.9	
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

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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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