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Biota Holdings Limited (BTA)

Speculative Buy

Reports 1H09 NPAT of \$7.2m; Sizeable Relenza™ Royalty Uplift in 2H Likely

\$0.45

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1H09 Key Points

Reported 1H09 NPAT of \$7.2m, up 30.6% on pcp, driven largely by a \$12.7m net gain on GSK litigation settlement.

Normalised NPAT ex GSK of (\$5.5m), largely attributable to a 76.8% decrease in Relenza™ royalties on pcp to \$3.8m.

Product Development and R&D expenditure of \$6.3m and \$6.4m, respectively.

Cash balance of \$55.4m.

Summary

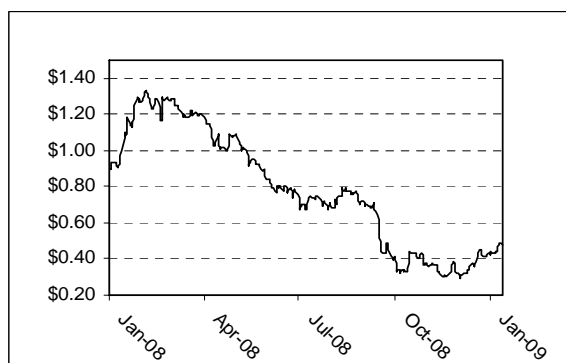
Market Capitalisation (M)	\$78.6
Share Price	\$0.45
Shares on Issue (M)	174.6
52 Week High	\$1.38
52 Week Low	\$0.29
Valuation Per Share (fully diluted)	\$1.65
Cash (M) as at 31/12/08	\$55.4

Key Financials (A\$'000)

Year End	FY08 Actual	1H09 Actual	FY09 Est.
Relenza Royalties	20,544	3,819	17,563
Partnering Income*	5,871	2,447	4,069
Total Revenue	44,989	13,561	34,974
Total Op. Expenses	(41,397)	(8,412)	(22,368)
R&D Expenses	(10,287)	(6,339)	(13,171)
EBITDA	(9,897)	9,601	10,216
Normalised NPAT	10,735	(5,522)	(2,397)
Adj. NPAT	(6,489)	7,214	9,311
Adj. EPS (c)	(3.5)	4.1	5.3
Adj. PE Ratio (x)	n/a	n/a	8.4

* Upfront/Milestones only (ex-R&D income)

Share Price Graph (A\$)



Our View

- We consider several key swing factors to our FY09 earnings estimates. Firstly, the timing of the UK/Japanese Relenza™ orders, which we estimate will contribute \$9.3m in FY09 royalties and \$17.6m in FY10. We maintain our total Relenza™ royalty expectations of \$17.6m (FY09) and \$27.8m (FY10). We believe Biota has bankable Relenza™ royalties to 3Q CY09 of at least \$25.6m from seasonal Japanese sales and confirmed pandemic UK/Japanese orders. The 1H09 result also highlighted the timing of eligible product development expenditures related to the HRV Phase 2 challenge study and general R&D expenditure related to HCV programs. We had expected a higher charge for HRV in the 1H, which is likely to now impact in the 2H and possible into 1H10, depending on the number of cohorts reported. We note costs relating to the RSV Phase 1 studies and LANI dosing studies in the UK are reimbursed via partners (AstraZeneca) or government grants, respectively.
- We continue to believe the macro environment remains very positive for Biota. Tamiflu® resistance problems remain, which is driving seasonal sales of Relenza™, particularly in Japan, given 2m additional treatments were recently shipped on top of the existing 3m courses. New government stockpiling orders have been placed for Relenza™ (UK/Japan), which amount to at least 11.9m treatments, possibly up to 15.0m if Japan secures an additional order in 1H10, subject to govt funding being made available. Finally, Daiichi Sankyo expect to file LANI (CS8958) for approval in Japan before April 2010, with Phase 3 results expected mid CY09. However, given the operating environment and market values ascribed to pre-clinical pipelines for drug developers, we have written down our valuation on Biota's pre-clinical pipeline covering CMV, HCV (non-nucleoside) and FLUNET compounds to zero (previously \$28m).
- As a result of some amendments to our HRV Phase 2 FY09 trial cost estimates, we are forecasting a reported FY09 NPAT of \$9.3m (\$2.4m NPAT loss on a normalised basis), an 18.4% decrease on previous estimates. We re-iterate our Speculative Buy recommendation and revised price target of \$1.65 (\$1.74 previous) noting the confirmation of 2H09 Relenza™ sales from GSK will likely draw investor interest, in an otherwise subdued biotechnology market generally.

Biota Holdings Limited - Summary of Forecasts

BTA \$0.45

PROFIT & LOSS SUMMARY (A\$'000)						
Period	FY07A	1H08A	FY08A	1H09A	FY09E	FY10E
Relenza Royalties	39,789	16,483	20,544	3,819	17,563	27,801
Partnering (Licence) Income	5,726	4,645	5,871	2,447	4,069	23,410
Research income (inc Grants)	8,740	7,273	15,042	5,315	11,171	1,624
Total Revenue	57,300	30,370	44,989	13,561	34,974	55,016
<i>Growth (pp)</i>	282.8%	50.2%	-21.5%	-55.3%	-22.3%	57.3%
Net Gain on GSK Settlement	0	0	0	12,736	12,736	0
Net Operating Revenue	27,576	13,733	3,592	17,885	25,342	42,097
R&D Expenses	(8,198)	(4,656)	(10,287)	(6,339)	(13,171)	(11,274)
EBITDA	16,871	7,268	(9,897)	9,601	10,216	28,850
Depreciation	(1,228)	(436)	(933)	(570)	(1,207)	(1,254)
Amortisation	(317)	(1,121)	(1,681)	(840)	(1,653)	(1,890)
EBIT	15,326	5,711	(12,511)	8,191	7,356	25,706
Net Interest	2,507	1,809	3,202	1,945	1,955	1,972
Pre-Tax Profit	17,833	7,520	(9,309)	10,136	9,311	27,678
Tax Expense	2,347	(1,996)	2,820	(2,922)	0	0
Minorities	0	0	0	0	0	0
NPAT Normalised *	21,424	14,085	10,735	(5,522)	(2,397)	27,678
NPAT Adj.	20,180	5,524	(6,489)	7,214	9,311	27,678
<i>Growth (pp)</i>	n/a	86.2%	-132.2%	30.6%	-243.5%	197.3%
Net Adjustments	0	0	0	0	0	0
Reported Profit	20,180	5,524	(6,489)	7,214	9,311	27,678

PER SHARE DATA						
Period	FY07A	1H08A	FY08A	1H09A	FY09E	FY10E
Adjusted EPS (c)	11.2	3.0	(3.5)	4.1	5.3	15.9
<i>Growth (pp)</i>	n/a	n/a	-131.7%	34.5%	-250.4%	197.3%
Reported EPS (c)	11.2	3.0	(3.5)	4.1	5.3	15.9
<i>Growth (pp)</i>	n/a	32.5%	-131.7%	34.5%	-250.4%	197.3%
Dividend (c)	0.0	0.0	0.0	0.0	0.0	0.0
Franking	0%	0%	0%	0%	0%	0%
Gross CF per Share (c)	6.9	(4.8)	2.4	4.0	10.0	40.7
NTA per share (c)	32.2	35.5	28.0	33.4	68.1	110.6

VALUATION MULTIPLES						
Period	FY07A	1H08A	FY08A	1H09A	FY09E	FY10E
Adjusted PE Ratio (x)	4.0	n/a	n/a	n/a	8.4	2.8
PE Ratio (x)	4.0	n/a	n/a	n/a	8.4	2.8
Dividend Yield (%)	n/a	n/a	n/a	n/a	0.0%	0.0%
EV/EBITDA (x)	1.2	n/a	(2.2)	n/a	2.1	(0.2)
EV/EBIT (x)	1.3	n/a	(1.8)	n/a	2.9	(0.3)

CAPITAL RAISING ASSUMPTIONS						
Period	FY07A	1H08A	FY08A	1H09A	FY09E	FY10E
Shares Issued (m)	0.0	0.0	0.0	0.0	0.0	0.0
Issue Price (A\$)	0.0	0.0	0.0	0.0	0.0	0.0
Cash Raised (A\$m)	0.0	0.0	0.0	0.0	0.0	0.0

KEY RATIOS						
Period	FY07A	1H08A	FY08A	1H09A	FY09E	FY10E
EBITD/Sales Margin %	29.4%	23.9%	-22.0%	70.8%	29.2%	52.4%
EBIT/Sales Margin %	26.7%	18.8%	-27.8%	60.4%	21.0%	46.7%
Current ratio (x)	5.3	5.4	3.4	6.1	4.8	14.7
Net Debt : Equity (%)	-86.9%	-67.6%	-94.8%	-84.0%	-88.3%	-79.1%
ROE (%)	34.1%	n/a	-9.6%	10.0%	14.1%	30.6%
Dividend Payout Ratio (%)	n/a	n/a	n/a	n/a	0.0%	0.0%

*Excluding litigation expense and settlement, tax effected at 30%

BALANCE SHEET SUMMARY (A\$'000)						
Period	FY07A	1H08A	FY08A	1H09A	FY09E	FY10E
Cash	62,156	52,481	60,164	55,386	60,684	88,816
Receivables	9,350	28,423	4,270	6,925	5,246	8,252
Inventories	0	0	0	0	0	0
Other	0	0	0	0	0	0
Total Current Assets	71,506	80,904	64,434	62,311	66,930	97,068
Investments	0	0	0	0	0	0
Inventories	0	0	0	0	0	0
Property Plant & Equip	5,152	5,412	7,543	7,229	7,836	8,082
Intangibles	13,447	12,646	12,113	11,408	10,460	8,570
Deferred Tax Assets	2,349	353	5,168	2,246	5,168	5,168
Other	0	0	0	0	0	0
Total Non-Current Assets	20,948	18,411	24,824	20,883	23,464	21,820
TOTAL ASSETS	92,454	99,315	89,258	83,194	89,395	118,888
Accounts Payable	6,004	4,630	12,023	1,885	9,443	5,502
Borrowings	0	0	0	0	0	0
Provisions	1,097	886	1,122	1,055	1,122	1,122
Other (Inc Def Rev)	6,457	9,791	6,059	7,313	3,125	0
Total Current Liab	13,558	15,107	19,204	10,253	13,690	6,624
Borrowings	0	0	132	0	0	0
Provisions	6,339	6,546	6,622	6,991	6,991	0
Other (Inc Def Rev)	1,022	0	0	0	0	0
Total Non-Current Liab	7,361	6,546	6,754	6,991	6,991	0
TOTAL LIABILITIES	20,919	21,653	25,958	17,244	20,681	6,624
TOTAL EQUITY	71,535	77,662	63,300	65,950	68,713	112,264

CASH FLOW SUMMARY (A\$'000)						
Period	FY07A	1H08A	FY08A	1H09A	FY09E	FY10E
EBIT (excl Abs/Extr)	15,326	5,711	(12,511)	8,191	7,356	25,706
Add: Depreciation	1,228	436	933	570	1,207	1,254
Amortisation	317	1,121	1,681	840	1,653	1,890
Change in Pay.	1,970	(1,374)	6,019	(10,138)	(2,580)	(3,941)
Less: Tax paid	2,347	(1,996)	2,820	(2,922)	0	0
Net Interest	2,507	1,809	3,202	1,945	1,955	1,972
Change in Rec.	(3,486)	(19,073)	5,080	(2,655)	(976)	(3,006)
Change in Prov.	(6,820)	204	(308)	(738)	(369)	6,991
Change in Def Tax Assets	(2,349)	1,996	(2,819)	2,922	0	0
Change in Inv.	0	0	0	0	0	0
Change in Def. Rev.	1,468	2,312	(1,420)	1,254	(2,934)	(3,125)
Gross Cashflows	12,508	(8,854)	4,358	(4,417)	6,965	29,631
Capex	(893)	(1,023)	(3,785)	(465)	(1,500)	(1,500)
Free Cashflows	11,615	(9,877)	573	(4,882)	5,465	28,131
Re-Purchase of Shares**	0	0	(3,020)	(4,945)	(4,945)	0
Net Cash Flow	11,615	(9,877)	(2,447)	(9,827)	520	28,131

** Biota announced an on market buy-back of up to 5% (9.17m shares) of its issued capital commencing 10 mar 08

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