

30 March 2009

Biota Holdings

Japan trial on target

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\$0.75

Price
A\$0.54

Short term (0-60 days)
n/a

BTA90330

Price performance

	(1M)	(3M)	(12M)
Price (A\$)	0.44	0.31	1.25
Absolute (%)	22.7	71.4	-56.8
Rel market (%)	11.8	67.2	-36.8
Rel sector (%)	26.3	110.5	-46.0



Market capitalisation
A\$92.34m (US\$64.61m)

Average (12M) daily turnover
A\$0.22m (US\$0.18m)

RIC: BTA.AX, BTA AU
Priced at close of business 27 Mar 2009.
Source: Bloomberg

Analysts

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BTA's partner has exercised its rights in Japan. This is positive news and bodes well for a global licensing deal later in the year. Results from the Phase III trial are due mid year. The next milestone is an expectation of positive quarterly Relenza royalties on 23rd April.

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)	4.80	n/m	11.00	11.30	4.62
EV/EBITDA (x)	1.82	n/m	2.90	1.82	0.02
Price/net oper. CF (x)	4.63	19.20	20.30	8.17	4.49
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

Positive news from Japan highlights potential for ROW deal

BTA announced its partner in Japan (Daiichi Sankyo) has signed a contract to manufacture and market the long-acting version of Relenza (known as LANI) in Japan, pending the successful completion of the pivotal Phase III clinical studies and registration. BTA will receive an undisclosed royalty on sales in the Japanese market. The recruitment for the trial has been completed and results are due mid-2009. Our best guess on timing is that sales into Japan could commence in 2011. At this stage we make no changes to our forecasts. In all other markets Biota and Daiichi Sankyo will share 50:50 the commercial returns. Daiichi's decision to exercise its rights gives us more confidence that some licensing deal is likely for the rest of the world.

GSK 1Q09 result is next key milestone to drive share price

GSK will report its 1Q09 result on 23rd April (Australian time). Given recent contact wins, including an A\$18m UK Government order, we expect substantially improved Relenza royalties to be reported. The 1H09 royalty was A\$3.8m; our full-year forecast is A\$26m. Anecdotal evidence suggests GSK is becoming more active in the influenza market.

Investment view – target price remains at A\$0.75

We have made no changes to our forecasts. Our DCF valuation remains at A\$1.11. The key assumptions in deriving the valuation include a risk-free rate of 5.25%, a WACC of 16.0% and a terminal growth rate of 3.5%. Our target price remains at A\$0.75, reflecting were we expect the share to trade if increasing royalties from Relenza are achieved by GSK. Key risks to our target price include a delay in partnering key projects or the failure to achieve key end points.

BTA – financial summary

Year to 30 Jun (A\$m)	AIFRS	AIFRS	AIFRS	AIFRS	AIFRS	Closing price (A\$)	0.540	Price target (A\$)	0.75	
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\$)	\$ 1.11	
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	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)	125.6	
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)	189.2	
Income tax expense	2.3	2.8	-1.5	-2.8	-9.3	WACC	16.1%	Diluted no. of shares (m)	171.0	
After-tax profit	20.2	-6.5	8.4	8.2	20.0			DCF valuation (A\$)	1.11	
Minority interests						Multiples	2008A	2009F	2010F	2011F
NPAT	20.2	-6.5	8.4	8.2	20.0	Enterprise value (A\$m)	32.2	28.7	19.3	0.6
Significant items	0.0	0.0	0.0	0.0	0.0	EV/Sales (x)	0.8	0.4	0.4	0.0
NPAT post abnormal	20.2	-6.5	8.4	8.2	20.0	EV/EBITDA (x)	-3.3	2.9	1.8	0.0
						EV/EBIT (x)	-2.6	4.6	2.7	0.0
Cash flow statement	2007A	2008A	2009F	2010F	2011F	PE (pre-goodwill) (x)	-14.2	11.0	11.3	4.6
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	2008A	2009F	2010F	2011F
Net interest (pd)/rec	2.5	3.2	3.6	3.8	4.4	EV/EBITDA (x)	-7.0	6.6	5.2	1.3
Taxes paid	2.3	2.8	-1.5	-2.8	-9.3	PE (pre-goodwill) (x)	-19.8	15.3	15.8	6.4
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	-1.3	-13.1	0.5
Capex (2)	-0.9	-3.8	-1.0	-1.9	-1.8	Year to 30 Jun	EV/EBIT	-1.3	-12.1	0.5
Disposals/(acquisitions)	0.0	0.0	0.0	0.0	0.0		PE	-3.5	-80.0	2.3
Other investing cash flow	0.0	0.0	0.0	0.0	0.0	Pharmaxis	EV/EBITDA	-6.3	-9.7	-28.1
Cash flow from invest (3)	-0.9	-3.8	-1.0	-1.9	-1.8	Year to 30 Jun	EV/EBIT	-6.1	-9.0	-22.3
Incr/(decr) in equity	1.4	-3.0	0.0	0.0	0.0		PE	-10.2	-12.0	-29.5
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	Payables turnover (x)	5.7	5.4	6.0	3.8
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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