

23 April 2009

Biota Holdings

Wow!!

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.**

We almost fell off the chair when we saw the Relenza numbers. BTA will book A\$32.3m in royalties for 3QFY09, which was greater than our full-year forecast. Accordingly, we have upgraded our forecast and expect more news flow to maintain investor interest.

High Volatility

Target price

A\$1.05 (from A\$0.75)

Price

A\$0.905

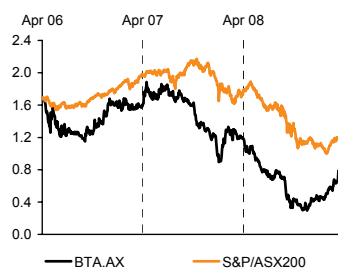
Short term (0-60 days)

n/a

BTA90423

Price performance

	(1M)	(3M)	(12M)
Price (A\$)	0.57	0.43	1.17
Absolute (%)	57.4	110.5	-22.6
Rel market (%)	48.7	100.1	17.3
Rel sector (%)	59.0	156.7	0.9



Market capitalisation

A\$154.75m (US\$109.56m)

Average (12M) daily turnover

A\$0.21m (US\$0.17m)

RIC: BTA.AX, BTA AU
 Priced at close of business 23 Apr 2009.
 Source: Bloomberg

Analysts

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Key forecasts

	FY07A	FY08A	FY09F	FY10F	FY11F
EBITDA (A\$m)	16.60	-9.78	23.00 ▲	10.60	21.40 ▼
Reported net profit (A\$m)	20.20	-6.49	21.30 ▲	8.16	20.00
Normalised net profit (A\$m) ¹	20.20	-6.49	21.30 ▲	8.16	20.00
Normalised EPS (c) ¹	11.20	-3.79	12.40 ▲	4.77	11.70
Normalised EPS growth (%)	n/a	n/a	n/a	-61.6	145.1
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)	8.05	n/m	7.28	19.00	7.74
EV/EBITDA (x)	5.57	n/m	3.47	6.48	2.30
Price/net oper. CF (x)	7.76	32.10	9.83 ▼	12.00 ▼	7.15 ▼
ROIC (%)	1,506	-93.4	433.6	51.50	182.1

Use of ▲ ▼ indicates that the line item has changed by at least 5%.

year to Jun, fully diluted

1. Pre non-recurring items and post preference dividends

Accounting standard: IFRS

Source: Company data, ABN AMRO Morgans forecasts

Significant uplift in Relenza numbers

GlaxoSmithKline (GSK) has released its 1Q financial report. It reported £222m (A\$470m) in Relenza (zanamivir) sales. BTA receives a 7% royalty from GSK, and will receive A\$32.3m from GSK in 2QFY09. Table 1 details the recent quarterly sale figures. This improvement in quarterly performance is well above our expectations and reflects significant orders for pandemic stockpiling from the UK and Japanese governments. Relenza royalties are lumpy and difficult to predict.

FY09 profit forecast revised up significantly

We have significantly increased our FY09 forecast to A\$21.3m from A\$8.2m, reflecting the larger-than-expected 3Q royalty payment. Our full-year Relenza royalty forecast is now A\$39.4m vs A\$26m before. We have noted some recent press commentary from the Canadian Health authorities suggesting a potential rebalance of influenza stockpiles to incorporate more Relenza. At this stage we maintain our FY10 and FY11 forecasts.

The next milestone to watch

BTA recently completed recruitment of the pivotal Phase III trial of the long acting version of Relenza (LANI) in Japan. Results are due mid CY09 and this will be a major milestone.

Investment view – price target upgraded

After changes to our forecasts our DCF valuation has risen to A\$1.16 (was A\$1.11). Our key valuation assumptions are a rfr of 5.25%, wacc of 16.0% and a terminal growth rate of 3.5%. Our price target has been raised to A\$1.05 (was A\$0.75), reflecting where we expect the price to trade on achieving successful LANI trial results in July 2009. Risks include a delay in partnering key projects or failure to achieve key end points.

Table 1 : Quarterly Relenza Sales results

GBP (m)	1Q06	2Q06	3Q06	4Q06	CY06	1Q07	2Q07	3Q07	4Q07	CY07	1Q08	2Q08	3Q08	4Q08	CY08	1Q09	% change on pp	% change on pp
US		0	0	0	0	44	34	12	41	131	8	2	5	5	20	11	120%	38%
EU		10	24	22	62	32	26	14	4	76	0	1	0	5	6	110	2100%	nm!
ROW		7	6	15	29	16	7	2	30	55	21	0	7	3	31	101	3267%	381%
Total		7	17	30	37	92	67	28	75	262	29	3	12	13	57	222	1608%	666%

Source: GSK

BTA – financial summary

Year to 30 Jun (A\$m)	AIFRS 2007A	AIFRS 2008A	AIFRS 2009F	AIFRS 2010F	AIFRS 2011F	Closing price (A\$)	0.905	Price target (A\$)	1.05		
Income statement						Valuation metrics					
Divisional sales	54.8	41.7	77.0	54.5	45.8	Preferred methodology	DCF	Val'n (A\$)	\$ 1.16		
Total revenue	54.8	41.7	77.0	54.5	45.8	DCF valuation inputs					
EBITDA	16.6	-9.8	23.0	10.6	21.4	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	19.4	7.1	17.9	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)	124.2		
EBIT	15.4	-12.5	19.4	7.1	17.9	Debt (D/EV)	0.0%	Minority interest (A\$m)	0.0		
EBIT (incl associate profit)	15.4	-12.5	19.4	7.1	17.9	Interest rate	7.25%	Net debt (A\$m)	-74.9		
Net interest expense	2.5	3.2	1.8	2.2	2.6	Tax rate (t)	30.0%	Investments (A\$m)	0.0		
Pre-tax profit	17.9	-9.3	21.2	9.4	20.4	Franking credit	100.0%	Equity market value (A\$m)	199.1		
Income tax expense	2.3	2.8	0.0	-1.2	-0.4	WACC	16.1%	Diluted no. of shares (m)	171.0		
After-tax profit	20.2	-6.5	21.3	8.2	20.0			DCF valuation (A\$)	1.16		
Minority interests						Multiples		2008A	2009F	2010F	2011F
NPAT	20.2	-6.5	21.3	8.2	20.0	Enterprise value (A\$m)	94.6	79.9	68.9	49.1	
Significant items	0.0	0.0	0.0	0.0	0.0	EV/Sales (x)	2.3	1.0	1.3	1.1	
NPAT post abnormalities	20.2	-6.5	21.3	8.2	20.0	EV/EBITDA (x)	-9.7	3.5	6.5	2.3	
						EV/EBIT (x)	-7.6	4.1	9.7	2.7	
						PE (pre-goodwill) (x)	-23.9	7.3	19.0	7.7	
Cash flow statement	2007A	2008A	2009F	2010F	2011F	At target price	2008A	2009F	2010F	2011F	
EBITDA	16.6	-9.8	23.0	10.6	21.4	EV/EBITDA (x)	-12.2	4.5	8.8	3.4	
Change in working capital	-0.5	8.6	-9.1	1.3	-1.9	PE (pre-goodwill) (x)	-27.6	8.4	21.9	9.0	
Net interest (pd)/rec	2.5	3.2	1.8	2.2	2.6	Comparable company data (x)		2009F	2010F	2011F	
Taxes paid	2.3	2.8	0.0	-1.2	-0.4	Avexa	EV/EBITDA	-1.0	-10.2	0.2	
Other oper cash items	0.0	0.0	0.0	0.0	0.0	Year to 30 Jun	EV/EBIT	-1.0	-9.4	0.2	
Cash flow from ops (1)	21.0	4.8	15.7	12.9	21.7	PE	PE	-3.1	-70.6	2.0	
Capex (2)	-0.9	-3.8	-1.0	-1.9	-1.8	Pharmaxis	EV/EBITDA	-9.4	-13.0	-35.7	
Disposals/(acquisitions)	0.0	0.0	0.0	0.0	0.0	Year to 30 Jun	EV/EBIT	-9.1	-12.0	-28.6	
Other investing cash flow	0.0	0.0	0.0	0.0	0.0	PE	PE	-13.0	-14.3	-33.3	
Cash flow from invest (3)	-0.9	-3.8	-1.0	-1.9	-1.8	Per share data	2008A	2009F	2010F	2011F	
Incr/(decr) in equity	1.4	-3.0	0.0	0.0	0.0	No. shares	171.0	171.0	171.0	171.0	
Incr/(decr) in debt	0.0	0.0	0.0	0.0	0.0	EPS (cps)	-3.8	12.4	4.8	11.7	
Ordinary dividend paid	0.0	0.0	0.0	0.0	0.0	EPS (normalised) (c)	-3.8	12.4	4.8	11.7	
Preferred dividends (4)	0.0	0.0	0.0	0.0	0.0	Dividend per share (c)	0.0	0.0	0.0	0.0	
Other financing cash flow	0.0	0.0	0.0	0.0	0.0	Dividend payout ratio (%)	0.0	0.0	0.0	0.0	
Cash flow from fin (5)	1.4	-3.0	0.0	0.0	0.0	Dividend yield (%)	0.0	0.0	0.0	0.0	
Forex and disc ops (6)	0.0	0.0	0.0	0.0	0.0	Growth ratios	2008A	2009F	2010F	2011F	
Incr/(decr) cash (1+3+5+6)	21.5	-2.0	14.7	11.0	19.8	Sales growth	-23.8%	84.4%	-29.2%	-16.0%	
Equity FCF (1+2+4)	20.1	1.0	14.7	11.0	19.8	Operating cost growth	35.0%	4.7%	-18.6%	-44.4%	
						EBITDA growth				101.0%	
						EBITA growth				150.4%	
Balance sheet	2007A	2008A	2009F	2010F	2011F	Operating performance	2008A	2009F	2010F	2011F	
Cash & deposits	62.2	60.2	74.9	85.9	105.7	Asset turnover (%)	11.5	19.6	12.4	9.4	
Trade debtors	9.4	4.3	9.5	6.7	5.6	EBITDA margin (%)	-23.4	29.9	19.5	46.7	
Inventory	0.0	0.0	0.0	0.0	0.0	EBIT margin (%)	-30.0	25.2	13.1	39.0	
Investments	0.0	0.0	0.0	0.0	0.0	Net profit margin (%)	-15.5	27.6	15.0	43.7	
Goodwill						Return on net assets (%)	-19.8	23.0	7.7	15.8	
Other intangible assets	13.4	12.1	10.4	8.8	7.1	Net debt (A\$m)	-60.2	-74.9	-85.9	-105.7	
Fixed assets	5.2	7.5	6.7	6.8	6.8	Net debt/equity (%)	-95.0	-88.5	-92.6	-93.8	
Other assets	2.3	5.2	5.2	5.2	5.2	Net interest/EBIT cover (x)	3.9	-10.8	-3.2	-6.9	
Total assets	92.5	89.3	106.6	113.3	130.3	ROIC (%)	-93.4	433.6	51.5	182.1	
Short-term borrowings	0.0	0.0	0.0	0.0	0.0	Internal liquidity	2008A	2009F	2010F	2011F	
Trade payables	6.0	12.0	8.1	6.6	3.7	Current ratio (x)	2.5	3.8	4.5	6.3	
Long-term borrowings	0.0	0.0	0.0	0.0	0.0	Receivables turnover (x)	6.1	11.2	6.7	7.4	
Provisions	0.0	0.0	0.0	0.0	0.0	Payables turnover (x)	5.7	5.4	6.0	4.7	
Other liabilities	14.9	13.9	13.9	13.9	13.9						
Total liabilities	20.9	26.0	22.1	20.5	17.6						
Share capital	161.7	159.1	180.4	188.5	208.5						
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	84.6	92.7	112.7						
Minority interest											
Total shareholders' equity	71.5	63.3	84.6	92.7	112.7						
Total liabilities & SE	92.5	89.3	106.6	113.3	130.3						

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: BTA.AX.

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