



Biota Holdings Limited (BTA)

Speculative Buy

Standout Relenza™ Quarter Delivers \$32m in Royalties

\$0.90

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Key Points

GlaxoSmithKline (GSK) has reported the best ever quarter for Relenza™ with sales of £222m (A\$460m).

3Q09 US, European and ROW sales of £11m, £110m, and £101m, respectively.

Driven by significant pandemic orders from the UK and Japan.

Biota expects indicative royalties of A\$32.3m for the 3Q09, up 1594% on 2Q09 and 632% on pcp.

Summary

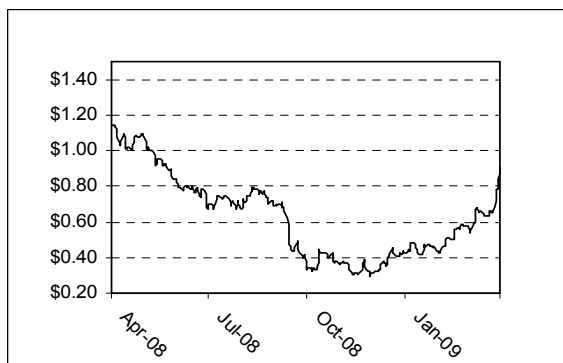
Market Capitalisation (M)	\$157.1
Share Price	\$0.90
Shares on Issue (M)	174.6
Av. Monthly Volume (Yr Rolling)(M)	7.24
52 Week High	\$1.12
52 Week Low	\$0.29
Valuation Per Share (fully diluted)	\$1.60
Cash (M) as at 31/12/08	\$55.4

Key Financials (A\$'000)

Year End	FY08 Actual	FY09 Est.	FY10 Est.
Relenza Royalties	20,544	37,800	12,713
Partnering Income*	5,871	4,069	23,410
Total Revenue	44,989	56,116	40,483
Total Op. Expenses	(41,397)	(23,368)	(12,919)
R&D Expenses	(10,287)	(14,171)	(11,274)
EBITDA	(9,897)	29,357	13,639
Normalised NPAT	10,735	9,975	14,172
Adj. NPAT	(6,489)	26,986	14,172
Adj. EPS (c)	(3.5)	15.5	8.1
Adj. PE Ratio (x)	n/a	5.9	11.1

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

Share Price Graph (A\$)



Our View

- Based on our estimates for FY09 expenditure, we remain comfortable the majority of the upgraded Relenza™ royalties will effectively drop through to PBT, though with an 88.7% uplift in non-cash amortisation expense relating to the VCP/CSIRO royalty buy out, to \$3.1m. We have upgraded our FY09 NPAT estimates to \$27.0m. Our revised FY09, FY10 and FY11 Relenza™ forecasts are \$37.8m (+114.8%), \$12.7m (-54.3%) and \$34.7m (+19.2%). We see a hole in FY10 collections at present, simply because of no known pandemic orders at hand. However, we see a sizeable uplift in seasonal sales expectations from Japan, and have assumed 5m treatments annually (\$8.8m in royalties). Our FY11 estimates include substantial replenishment royalties relating to stockpiling orders from France, Germany and Hong Kong in FY06.
- We note several recent positive developments in stockpiling and seasonal markets. The Canadian government has flagged an intention to purchase further an undisclosed quantity of Relenza™ for the emergency pandemic stockpile (currently 0.7m courses) in 2009. We note comments from a US Department of Health and Human Services (HHS) representative that the US will also consider altering the composition of its stockpile, which consists of 16.2m courses of Relenza™ or 20% of the total anti-viral stockpile. We believe these initiatives are in direct response to the emergence of major resistance issues now plaguing Tamiflu®. A recent report analysing close to 10,000 influenza patients under 18 yrs who took Tamiflu® in Japan since 2006 found patients were 25% more likely to display unusual behaviour when on drug therapy. We believe this study will continue drive seasonal uptake of Relenza™ in Japan, and the Health Ministry will continue a ban on Tamiflu® prescriptions for 10-19 year olds. In our view, these issues were shown to positively impact Relenza™ in Japan as evidenced by GSK's (Japan) sales over the quarter.
- Though Biota has experienced a significant positive re-rating recently, we continue to believe the outlook for the Company remains attractive. Investors need to be cognisant that the global market for anti-viral pandemic stockpiling is shifting very rapidly to include a major Relenza™ component, given the recurring problems with Tamiflu® at present. Moreover, Daiichi Sankyo is expected to report Phase 3 data on LANI (CS-8958) mid year, with Biota also due to report on its Phase 2a HRV study. We maintain our Speculative Buy recommendation and have upgraded our valuation by 5 cps to \$1.60.

Biota Holdings Limited - Summary of Forecasts

BTA \$0.90

PROFIT & LOSS SUMMARY (A\$'000)

	FY07A	FY08A	FY09E	FY10E	FY11E
Relenza Royalties	39,789	20,544	37,800	12,713	34,675
Partnering (Licence) Income	5,726	5,871	4,069	23,410	10,000
Research Income (inc Grants)	8,740	15,042	12,171	1,624	700
Total Revenue	57,300	44,989	56,116	40,483	48,277
<i>Growth (pcp)</i>	<i>282.8%</i>	<i>-21.5%</i>	<i>24.7%</i>	<i>-27.9%</i>	<i>19.3%</i>
Net Gain on GSK Settlement	0	0	12,736	0	0
Net Operating Revenue	27,576	3,592	45,483	27,564	35,990
R&D Expenses	(8,198)	(10,287)	(14,171)	(11,274)	(11,903)
EBITDA	16,871	(9,897)	29,357	13,639	21,241
Depreciation	(1,228)	(933)	(1,207)	(1,254)	(1,616)
Amortisation	(317)	(1,681)	(3,120)	(864)	(2,358)
EBIT	15,326	(12,511)	25,031	11,520	17,266
Net Interest	2,507	3,202	1,955	2,652	2,847
Pre-Tax Profit	17,833	(9,309)	26,986	14,172	20,113
Tax Expense	2,347	2,820	0	0	0
Minorities	0	0	0	0	0
NPAT Normalised *	21,424	10,735	9,975	14,172	20,113
NPAT Adj.	20,180	(6,489)	26,986	14,172	20,113
<i>Growth (pcp)</i>	<i>n/a</i>	<i>-132.2%</i>	<i>-515.9%</i>	<i>-47.5%</i>	<i>41.9%</i>
Net Adjustments	0	0	0	0	0
Reported Profit	20,180	(6,489)	26,986	14,172	20,113

PER SHARE DATA

Period	FY07A	FY08A	FY09E	FY10E	FY11E
Adjusted EPS (c)	11.2	(3.5)	15.5	8.1	11.5
<i>Growth (pcp)</i>	<i>n/a</i>	<i>-131.7%</i>	<i>-535.8%</i>	<i>-47.5%</i>	<i>41.9%</i>
Reported EPS (c)	11.2	(3.5)	15.5	8.1	11.5
<i>Growth (pcp)</i>	<i>n/a</i>	<i>-131.7%</i>	<i>-535.8%</i>	<i>-47.5%</i>	<i>41.9%</i>
Dividend (c)	0.0	0.0	0.0	0.0	0.0
Franking	0%	0%	0%	0%	0%
Gross CF per Share (c)	6.9	2.4	15.3	43.0	24.3
NTA per share (c)	32.2	28.0	68.8	113.7	134.4

VALUATION MULTIPLES

Period	FY07A	FY08A	FY09E	FY10E	FY11E
Adjusted PE Ratio (x)	8.0	n/a	5.8	11.1	7.8
PE Ratio (x)	8.0	n/a	5.8	11.1	7.8
Dividend Yield (%)	n/a	n/a	0.0%	0.0%	0.0%
EV/EBITDA (x)	5.6	(9.8)	2.6	5.1	2.1
EV/EBIT (x)	6.2	(7.8)	3.0	6.0	2.6

CAPITAL RAISING ASSUMPTIONS

Period	FY07A	FY08A	FY09E	FY10E	FY11E
Shares Issued (m)	0.0	0.0	0.0	0.0	0.0
Issue Price (A\$)	0.0	0.0	0.0	0.0	0.0
Cash Raised (A\$m)	0.0	0.0	0.0	0.0	0.0

KEY RATIOS

Period	FY07A	FY08A	FY09E	FY10E	FY11E
EBITDA/Sales Margin %	29.4%	-22.0%	52.3%	33.7%	44.0%
EBIT/Sales Margin %	26.7%	-27.8%	44.6%	28.5%	35.8%
Current ratio (x)	5.3	3.4	5.2	18.1	15.0
Net Debt : Equity (%)	-86.9%	-94.8%	-92.9%	-85.1%	-89.7%
ROE (%)	34.1%	-9.6%	35.7%	14.9%	17.6%
Dividend Payout Ratio (%)	n/a	n/a	0.0%	0.0%	0.0%

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

BALANCE SHEET SUMMARY (A\$'000)

Period	FY07A	FY08A	FY09E	FY10E	FY11E
Cash	62,156	60,164	81,585	87,601	112,854
Receivables	9,350	4,270	8,417	6,073	9,173
Inventories	0	0	0	0	0
Other	0	0	0	0	0
Total Current Assets	71,506	64,434	90,003	93,674	122,026
Investments	0	0	0	0	0
Inventories	0	0	0	0	0
Property Plant & Equip	5,152	7,543	7,836	8,082	7,966
Intangibles	13,447	12,113	8,993	8,129	5,771
Deferred Tax Assets	2,349	5,168	5,168	5,168	5,168
Other	0	0	0	0	0
Total Non-Current Assets	20,948	24,824	21,997	21,379	18,905
TOTAL ASSETS	92,454	89,258	112,000	115,052	140,931
Accounts Payable	6,004	12,023	12,907	4,048	7,242
Borrowings	0	0	0	0	0
Provisions	1,097	1,122	1,122	1,122	908
Other (Inc Def Rev)	6,457	6,059	3,125	0	0
Total Current Liab	13,558	19,204	17,154	5,170	8,150
Borrowings	0	132	0	0	0
Provisions	6,339	6,622	6,991	6,991	6,991
Other (Inc Def Rev)	1,022	0	0	0	0
Total Non-Current Liab	7,361	6,754	6,991	6,991	6,991
TOTAL LIABILITIES	20,919	25,958	24,145	12,161	15,141
TOTAL EQUITY	71,535	63,300	87,855	102,891	125,790

CASH FLOW SUMMARY (A\$'000)

Period	FY07A	FY08A	FY09E	FY10E	FY11E
EBIT (excl Abs/Extr)	15,326	(12,511)	25,031	11,520	17,266
Add: Depreciation	1,228	933	1,207	1,254	1,616
Amortisation	317	1,681	3,120	864	2,358
Change in Pay.	1,970	6,019	884	(8,858)	3,193
Less: Tax paid	2,347	2,820	0	0	0
Net Interest	2,507	3,202	1,955	2,652	2,847
Change in Rec.	(3,486)	5,080	(4,147)	2,345	(3,100)
Change in Prov.	(6,820)	(308)	(369)	0	214
Change in Def Tax Assets	(2,349)	(2,819)	0	0	0
Change in Inv.	0	0	0	0	0
Change in Def. Rev.	1,468	(1,420)	(2,934)	(3,125)	0
Gross Cashflows	12,508	4,358	27,866	7,516	26,753
Capex	(893)	(3,785)	(1,500)	(1,500)	(1,500)
Free Cashflows	11,615	573	26,366	6,016	25,253
Re-Purchase of Shares**	0	(3,020)	(4,945)	0	0
Net Cash Flow	11,615	(2,447)	21,421	6,016	25,253

** 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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