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Biota Holdings Limited (BTA)

Swine Flu Puts World On Edge

Hold

\$1.60

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Key Points

Major global threat emerging in Mexico and the US over last four days, involving a potentially dangerous swine H1N1 influenza (flu).

149 confirmed deaths in Mexico, sporadic cases of human to human transmission across the globe emerging.

Potential for major new impetus in government global pandemic stockpiling and personal stockpiling.

Renewed focus on in-development second generation influenza drugs including Biota/Daiichi Sankyo's Phase 3 drug LANI (CS-8958) likely.

Summary

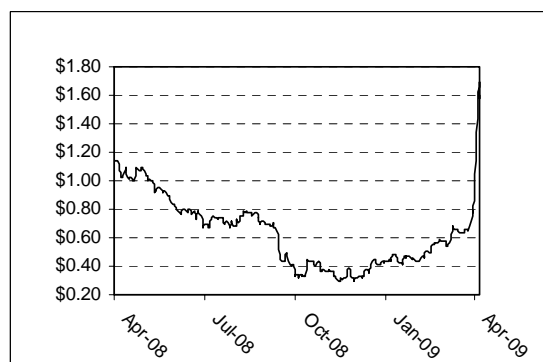
Market Capitalisation (M)	\$279.4
Share Price	\$1.60
Shares on Issue (M)	174.6
Av. Monthly Volume (Yr Rolling)(M)	7.24
52 Week High	\$1.79
52 Week Low	\$0.29
Valuation Per Share (fully diluted)	\$1.60
Cash (M) as at 31/12/08	\$55.4

Key Financials (A\$'000)

Year End	FY08 Actual	FY09 Est.	FY10 Est.
Relenza Royalties	20,544	37,950	12,713
Partnering Income*	5,871	4,069	23,410
Total Revenue	44,989	56,266	40,489
Total Op. Expenses	(41,397)	(23,368)	(12,919)
R&D Expenses	(10,287)	(14,171)	(11,274)
EBITDA	(9,897)	29,507	13,639
Normalised NPAT	10,735	10,080	14,177
Adj. NPAT	(6,489)	27,136	14,177
Adj. EPS (c)	(3.5)	15.5	8.1
Adj. PE Ratio (x)	n/a	10.3	19.7

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

Share Price Graph (A\$)



Our View

- GSK last night indicated last night they had supplied 0.1m packs of Relenza™ to Mexican authorities (TC est. \$0.15m in royalties to BTA), with the Company indicating it was urgently assessing mechanisms to increase production of Relenza™ as well. We note press reports today that the Boronia, Victoria facility is moving to full production over the next three months and with annualised capacity at 22m treatment courses. Assuming such capacity is replicated the other two Relenza™ manufacturing sites, this implies annual Relenza™ capacity stands at >60m courses, or at least \$105m in annual royalty potential to Biota at A\$25 per course. While we see this as a positive, it is unlikely to substantially increase near term sales (i.e. 4Q09), with the exception of personal stockpiling of existing retail inventories at hand, given no new government orders have been confirmed from this outbreak, though with 25% of the federal US stockpile being released to tackle the problem (inc Relenza™ and Tamiflu®), the US government may be a logical first mover in new orders.
- We conducted a small survey of Sydney pharmacies yesterday, which indicated all were either sold out of Relenza™, or Tamiflu®, or both – anecdotally suggesting a significant “run” on retail stockpiling given the lack of diagnosed swine flu in NSW and an influenza season yet to commence in earnest. Pharmacists indicated to us that demand was exceptionally strong, particularly for Tamiflu®, with wholesalers at present also experiencing stock outages. One pharmacist noted to get prescriptions filled as there may be a risk to supply if the government compulsorily acquires all stock for the general population, should the outbreak accelerate.
- Given the appreciable uplift in price (+143%) over the last ten days, and the stock trading at our valuation and price target, we have moved to a Hold recommendation on Biota. We note the sensitivity of the stock to (a) an appreciably worsening H1N1 infection rate and deaths and (b) global spread. We have upgraded our FY09 NPAT forecast by 0.6% to \$27.1m as a result of GSK initiatives in Mexico. We assert the swing factor for Relenza™ royalties in FY09 above our \$38.0m estimate will originate via personal stockpiling, which remains a challenge to forecast at present, but based on our observations in Sydney, could be significant on a global basis. The last run on stock occurred in 2005, when pharmacies carried very little Relenza™ as production only increased from 0.5m to 7.5m courses from 2005-2006, which was almost entirely secured by governments. We have not altered our FY10 and FY11 Relenza™ estimates at this stage. Our valuation remains at \$1.60.

Biota Holdings Limited - Summary of Forecasts

BTA \$1.60

PROFIT & LOSS SUMMARY (A\$'000)

	FY07A	FY08A	FY09E	FY10E	FY11E
Relenza Royalties	39,789	20,544	37,950	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	56,266	40,489	48,282
<i>Growth (pcp)</i>	<i>282.8%</i>	<i>-21.5%</i>	<i>25.1%</i>	<i>-28.0%</i>	<i>19.2%</i>
Net Gain on GSK Settlement	0	0	12,736	0	0
Net Operating Revenue	27,576	3,592	45,633	27,569	35,995
R&D Expenses	(8,198)	(10,287)	(14,171)	(11,274)	(11,903)
EBITDA	16,871	(9,897)	29,507	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)	25,181	11,520	17,266
Net Interest	2,507	3,202	1,955	2,657	2,852
Pre-Tax Profit	17,833	(9,309)	27,136	14,177	20,118
Tax Expense	2,347	2,820	0	0	0
Minorities	0	0	0	0	0
NPAT Normalised *	21,424	10,735	10,080	14,177	20,118
NPAT Adj.	20,180	(6,489)	27,136	14,177	20,118
<i>Growth (pcp)</i>	<i>n/a</i>	<i>-132.2%</i>	<i>-518.2%</i>	<i>-47.8%</i>	<i>41.9%</i>
Net Adjustments	0	0	0	0	0
Reported Profit	20,180	(6,489)	27,136	14,177	20,118

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>-538.2%</i>	<i>-47.8%</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>-538.2%</i>	<i>-47.8%</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	113.8	134.5

VALUATION MULTIPLES

Period	FY07A	FY08A	FY09E	FY10E	FY11E
Adjusted PE Ratio (x)	14.3	n/a	10.3	19.7	13.9
PE Ratio (x)	14.3	n/a	10.3	19.7	13.9
Dividend Yield (%)	n/a	n/a	0.0%	0.0%	0.0%
EV/EBITDA (x)	12.9	(22.2)	6.7	14.0	7.8
EV/EBIT (x)	14.2	(17.5)	7.8	16.6	9.6

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%	52.4%	33.7%	44.0%
EBIT/Sales Margin %	26.7%	-27.8%	44.8%	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%	-85.2%	-89.7%
ROE (%)	34.1%	-9.6%	35.9%	14.8%	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	81,747	87,756	113,014
Receivables	9,350	4,270	8,440	6,073	9,174
Inventories	0	0	0	0	0
Other	0	0	0	0	0
Total Current Assets	71,506	64,434	90,187	93,829	122,187
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	112,184	115,208	141,092
Accounts Payable	6,004	12,023	12,941	4,049	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	17,188	5,171	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	24,179	12,162	15,141
TOTAL EQUITY	71,535	63,300	88,005	103,046	125,951

CASH FLOW SUMMARY (A\$'000)

Period	FY07A	FY08A	FY09E	FY10E	FY11E
EBIT (excl Abs/Extr)	15,326	(12,511)	25,181	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	918	(8,892)	3,193
Less: Tax paid	2,347	2,820	0	0	0
Net Interest	2,507	3,202	1,955	2,657	2,852
Change in Rec.	(3,486)	5,080	(4,170)	2,367	(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	28,028	7,509	26,758
Capex	(893)	(3,785)	(1,500)	(1,500)	(1,500)
Free Cashflows	11,615	573	26,528	6,009	25,258
Re-Purchase of Shares**	0	(3,020)	(4,945)	0	0
Net Cash Flow	11,615	(2,447)	21,583	6,009	25,258

** 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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