



Biota Holdings Limited (BTA)

Speculative Buy

UK Takes Charge in Global Swine Flu Threat; Upgrade

\$1.45

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Key Points

UK Department of Health (DH) moves overnight to take steps increase its current anti-viral stockpile from 33m courses to 50m courses.

Tamiflu®/Relenza™ split and pricing unknown at present.

President Obama requested US\$1.5b to tackle the swine flu outbreak from Congress this week.

Summary

Market Capitalisation (M)	\$253.2
Share Price	\$1.45
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)	\$1.75
Cash (M) as at 31/12/08	\$55.4

Our View

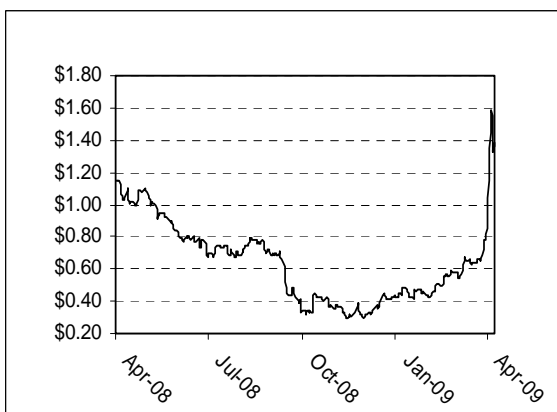
- The expected UK DH order for an additional 17m anti-viral treatments is significant. This potentially represents population coverage of a global high 82% and sets a new benchmark for western health regulators to respond to the global threat via increased stockpiles to potentially protect a greater percentage of citizens. We don't feel capacity constraints will preclude GSK from responding in a timely manner to any UK government request for Relenza™. Our belief is that annual capacity for Relenza™ now exceeds 60m treatment courses. If the ratio of Tamiflu®/Relenza™ in the overall UK stockpile remains at 66%/33%, respectively GSK can expect an order for a further 5.6m treatment courses, which based on our pricing of A\$21.30 to the UK government translates to \$8.4m in additional royalties. This forms the basis of our FY10 UK pandemic stockpiling order estimates.
- The US initiatives should also not be underestimated, with a direct request for US\$1.5b from Congress in emergency funding to be directed to (1) anti-viral drug purchases (Relenza™/Tamiflu®); (2) vaccine development (too late at present, as could take 6 months); (3) fighting disease spread. While the breakdown has not been articulated, we believe at least 50% of the money will be spent on anti-viral purchases. We have assumed 20% of US\$0.75b is allocated to Relenza™, consistent with existing stockpile ratios, providing an estimated \$15.0m in additional royalties to Biota in FY10.
- The World Health Organization (WHO) pandemic threat moved from "four" to "five" overnight – one scale point off a full blown pandemic. Though the stock remains very volatile at present, we believe investors need to consider the P&L consequences for Biota from these potential government orders, and the "shadow" market of personal stockpiling. While we see some positive surprise to our 4Q09 Relenza™ estimate of \$1.8m, the revenue/royalty effect of the UK and US initiatives are most likely to flow in FY10, significantly enhancing our Relenza™ royalty estimates which were predicated largely on seasonal sales in Japan and the US. In other words, this was the order we had hoped for, as it underpins profitability for FY10 without the necessity of Biota relying on milestone payments from license partners (TC estimates \$4.1m in FY10, \$23.4m in FY11). Similarly, we see significant royalties in FY11 principally from replenishment opportunities from FY06 German, French and Hong Kong orders. The macro environment, while deeply concerning represents a financial windfall for Biota with Relenza™ and potentially LANI via accelerated approvals in Japan. As a result, we have upgraded our FY10 NPAT forecast by 156% to \$36.3m due to the UK initiative, assumptions built on an additional US order, and a small order for Canada. On this basis, Biota currently trades on 9.3x our FY09 EPS estimates and 7.0x FY10 EPS. We have upgraded our price target by 9.4% to \$1.75 and moved from a Hold recommendation to a Speculative Buy.

Key Financials (A\$'000)

Year End	FY08 Actual	FY09 Est.	FY10 Est.
Relenza Royalties	20,544	37,950	36,427
Partnering Income*	5,871	4,069	23,410
Total Revenue	44,989	56,266	64,203
Total Op. Expenses	(41,397)	(23,368)	(12,919)
R&D Expenses	(10,287)	(14,171)	(11,274)
EBITDA	(9,897)	29,507	37,353
Normalised NPAT	10,735	10,080	36,279
Adj. NPAT	(6,489)	27,136	36,279
Adj. EPS (c)	(3.5)	15.5	20.8
Adj. PE Ratio (x)	n/a	9.3	7.0

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

Share Price Graph (A\$)



Biota Holdings Limited - Summary of Forecasts

BTA \$1.45

PROFIT & LOSS SUMMARY (A\$'000)

	FY07A	FY08A	FY09E	FY10E	FY11E
Relenza Royalties	39,789	20,544	37,950	36,427	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	64,203	49,171
<i>Growth (pcp)</i>	<i>282.8%</i>	<i>-21.5%</i>	<i>25.1%</i>	<i>14.1%</i>	<i>-23.4%</i>
Net Gain on GSK Settlement	0	0	12,736	0	0
Net Operating Revenue	27,576	3,592	45,633	51,283	36,884
R&D Expenses	(8,198)	(10,287)	(14,171)	(11,274)	(11,903)
EBITDA	16,871	(9,897)	29,507	37,353	21,241
Depreciation	(1,228)	(933)	(1,207)	(1,254)	(1,616)
Amortisation	(317)	(1,681)	(3,120)	(2,477)	(2,358)
EBIT	15,326	(12,511)	25,181	33,622	17,266
Net Interest	2,507	3,202	1,955	2,657	3,741
Pre-Tax Profit	17,833	(9,309)	27,136	36,279	21,007
Tax Expense	2,347	2,820	0	0	0
Minorities	0	0	0	0	0
NPAT Normalised *	21,424	10,735	10,080	36,279	21,007
NPAT Adj.	20,180	(6,489)	27,136	36,279	21,007
<i>Growth (pcp)</i>	<i>n/a</i>	<i>-132.2%</i>	<i>-518.2%</i>	<i>33.7%</i>	<i>-42.1%</i>
Net Adjustments	0	0	0	0	0
Reported Profit	20,180	(6,489)	27,136	36,279	21,007

PER SHARE DATA

Period	FY07A	FY08A	FY09E	FY10E	FY11E
Adjusted EPS (c)	11.2	(3.5)	15.5	20.8	12.0
<i>Growth (pcp)</i>	<i>n/a</i>	<i>-131.7%</i>	<i>-538.2%</i>	<i>33.7%</i>	<i>-42.1%</i>
Reported EPS (c)	11.2	(3.5)	15.5	20.8	12.0
<i>Growth (pcp)</i>	<i>n/a</i>	<i>-131.7%</i>	<i>-538.2%</i>	<i>33.7%</i>	<i>-42.1%</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	14.7	46.6	24.3
NTA per share (c)	32.2	28.0	83.9	128.9	149.3

VALUATION MULTIPLES

Period	FY07A	FY08A	FY09E	FY10E	FY11E
Adjusted PE Ratio (x)	12.9	n/a	9.3	7.0	12.0
PE Ratio (x)	12.9	n/a	9.3	7.0	12.0
Dividend Yield (%)	n/a	n/a	0.0%	0.0%	0.0%
EV/EBITDA (x)	11.3	(19.5)	5.8	3.7	5.4
EV/EBIT (x)	12.5	(15.4)	6.8	4.1	6.6

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%	58.2%	43.2%
EBIT/Sales Margin %	26.7%	-27.8%	44.8%	52.4%	35.1%
Current ratio (x)	5.3	3.4	5.2	11.6	17.9
Net Debt : Equity (%)	-86.9%	-94.8%	-92.9%	-90.8%	-92.5%
ROE (%)	34.1%	-9.6%	35.9%	33.8%	15.2%
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	115,107	139,194
Receivables	9,350	4,270	8,440	9,630	9,342
Inventories	0	0	0	0	0
Other	0	0	0	0	0
Total Current Assets	71,506	64,434	90,187	124,737	148,536
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	6,516	4,158
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	19,766	17,292
TOTAL ASSETS	92,454	89,258	112,184	144,504	165,828
Accounts Payable	6,004	12,023	12,941	9,630	7,376
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	10,752	8,284
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	17,743	15,275
TOTAL EQUITY	71,535	63,300	88,005	126,760	150,553

CASH FLOW SUMMARY (A\$'000)

Period	FY07A	FY08A	FY09E	FY10E	FY11E
EBIT (excl Abs/Extr)	15,326	(12,511)	25,181	33,622	17,266
Add: Depreciation	1,228	933	1,207	1,254	1,616
Amortisation	317	1,681	3,120	2,477	2,358
Change in Pay.	1,970	6,019	918	(3,311)	(2,255)
Less: Tax paid	2,347	2,820	0	0	0
Net Interest	2,507	3,202	1,955	2,657	3,741
Change in Rec.	(3,486)	5,080	(4,170)	(1,191)	288
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	34,860	25,587
Capex	(893)	(3,785)	(1,500)	(1,500)	(1,500)
Free Cashflows	11,615	573	26,528	33,360	24,087
Re-Purchase of Shares**	0	(3,020)	(4,945)	0	0
Net Cash Flow	11,615	(2,447)	21,583	33,360	24,087

** 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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