

8 May 2009

Change of recommendation
Buy (from Hold)

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\$1.41

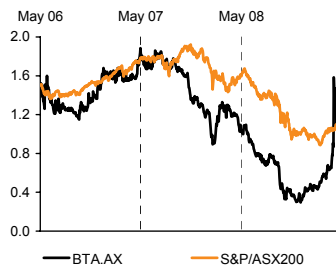
Price
 A\$1.06

Short term (0-60 days)
 Trading Buy

BTA90508

Price performance

	(1M)	(3M)	(12M)
Price (A\$)	0.65	0.42	1.02
Absolute (%)	61.8	152.4	3.9
Rel market (%)	52.3	122.3	49.6
Rel sector (%)	59.3	194.9	35.3


Market capitalisation
 A\$181.26m (US\$136.13m)

Average (12M) daily turnover
 A\$0.61m (US\$0.46m)

 RIC: BTA.AX, BTA AU
 Priced at close of business 7 May 2009.
 Source: Bloomberg

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Biota Holdings

Roller-coaster - are you game?

BTA's share price has been on a roller-coaster ride over the past two weeks with the traders dominating play. Our focus is production capacity, patent life and resistance to competitors' product. Upgrade to Buy.

Key forecasts

	FY07A	FY08A	FY09F	FY10F	FY11F
EBITDA (A\$m)	16.60	-9.78	25.70	25.90	22.00
Reported net profit (A\$m)	20.20	-6.49	23.90	24.70	21.60
Normalised net profit (A\$m) ¹	20.20	-6.49	23.90	24.70	21.60
Normalised EPS (c) ¹	11.20	-3.79	14.00	14.40	12.60
Normalised EPS growth (%)		n/a	n/a	3.38	-12.6
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)	9.43	n/m	7.59	7.34	8.40
EV/EBITDA (x)	7.17	n/m	4.06	3.02	2.50
Price/net oper. CF (x)	9.09	37.70	10.00	6.50	7.24
ROIC (%)	1,506	-93.4	492.2	156.5	147.7

1. Pre non-recurring items and post preference dividends
 Accounting standard: IFRS
 Source: Company data, ABN AMRO Morgans forecastss

year to Jun, fully diluted

GSK announces a potential increase in capacity

Recently the World Health Organisation (WHO) raised the worldwide pandemic alert level to Phase 5. A Phase 5 alert is characterised by confirmed person-to-person spread of a new influenza virus able to cause "cross-country outbreaks." Although the reported laboratory cases are increasing each day, the commentary from the Centre for Diseases Control (CDC) and WHO has moderated somewhat – so although they remain on high alert, the severity may not be as bad as first thought. However, GSK has announced its capacity can be increased significantly within a 12-week period to 5m courses per month (or 50m to 60m courses per year). Our current assumption is for 28m courses to be sold in FY10; every additional 5m courses sold in that year adds 3cps to our valuation of A\$1.41.

Relenza patent life worth discussing

According to management, the first of the patents start to expire in 2011 in some of the smaller European countries. Patents in the larger markets (UK, France, Germany and US) expire from 2014. Patent extensions are currently being investigated, although the timing and likelihood of success is hard to predict. We note that in Japan the patent for treatment has been extended to 2016. Our modelling suggests peak sales (28m courses) are reached in 2010, reducing to 20m courses in 2014. Potential upside to this assumption relates to growing resistance to the competitor product Tamiflu, which was identified in last year's flu season.

Investment view – recommendation upgraded to Buy

We have made no changes to our forecasts, and our DCF valuation and target price remain at A\$1.41. Risks to our target price include a delay in partnering key projects or failure to achieve key end points. Given the recent share price fall, we move our recommendation to Buy (from Hold).

BTA – financial summary

Year to 30 Jun (A\$m)	AIFRS 2007A	AIFRS 2008A	AIFRS 2009F	AIFRS 2010F	AIFRS 2011F	Closing price (A\$)	1.055	Price target (A\$)	1.41		
Income statement						Valuation metrics					
Divisional sales	54.8	41.7	79.6	69.8	46.4	Preferred methodology	DCF	Val'n (A\$)	\$ 1.41		
Total revenue	54.8	41.7	79.6	69.8	46.4	DCF valuation inputs					
EBITDA	16.6	-9.8	25.7	25.9	22.0	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	22.0	22.4	18.5	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)	164.5		
EBIT	15.4	-12.5	22.0	22.4	18.5	Debt (D/EV)	0.0%	Minority interest (A\$m)	0.0		
EBIT (incl associate profit)	15.4	-12.5	22.0	22.4	18.5	Interest rate	7.25%	Net debt (A\$m)	-77.2		
Net interest expense	2.5	3.2	1.8	2.3	3.1	Tax rate (t)	30.0%	Investments (A\$m)	0.0		
Pre-tax profit	17.9	-9.3	23.9	24.7	21.6	Franking credit	100.0%	Equity market value (A\$m)	241.7		
Income tax expense	2.3	2.8	0.0	0.0	0.0	WACC	16.1%	Diluted no. of shares (m)	171.0		
After-tax profit	20.2	-6.5	23.9	24.7	21.6			DCF valuation (A\$)	1.41		
Minority interests						Multiples		2008A	2009F	2010F	2011F
NPAT	20.2	-6.5	23.9	24.7	21.6	Enterprise value (A\$m)	121.1	104.1	78.1	54.9	
Significant items	0.0	0.0	0.0	0.0	0.0	EV/Sales (x)	2.9	1.3	1.1	1.2	
NPAT post abnormal	20.2	-6.5	23.9	24.7	21.6	EV/EBITDA (x)	-12.4	4.1	3.0	2.5	
						EV/EBIT (x)	-9.7	4.7	3.5	3.0	
Cash flow statement	2007A	2008A	2009F	2010F	2011F	PE (pre-goodwill) (x)	-27.9	7.6	7.3	8.4	
EBITDA	16.6	-9.8	25.7	25.9	22.0	At target price		2008A	2009F	2010F	2011F
Change in working capital	-0.5	8.6	-9.4	-0.3	0.0	EV/EBITDA (x)	-18.6	6.4	5.3	5.2	
Net interest (pd)/rec	2.5	3.2	1.8	2.3	3.1	PE (pre-goodwill) (x)	-37.3	10.1	9.8	11.2	
Taxes paid	2.3	2.8	0.0	0.0	0.0	Comparable company data (x)		2009F	2010F	2011F	
Other oper cash items	0.0	0.0	0.0	0.0	0.0	Avexa	EV/EBITDA	-1.0	-10.5	0.2	
Cash flow from ops (1)	21.0	4.8	18.1	27.9	25.0	Year to 30 Jun	EV/EBIT	-1.0	-9.6	0.2	
Capex (2)	-0.9	-3.8	-1.0	-1.9	-1.8		PE	-3.1	-71.3	2.0	
Disposals/(acquisitions)	0.0	0.0	0.0	0.0	0.0	Pharmaxis	EV/EBITDA	-11.6	-15.8	-49.1	
Other investing cash flow	0.0	0.0	0.0	0.0	0.0	Year to 30 Jun	EV/EBIT	-11.2	-14.5	-38.3	
Cash flow from invest (3)	-0.9	-3.8	-1.0	-1.9	-1.8		PE	-15.5	-17.1	-44.8	
Incr/(decr) in equity	1.4	-3.0	0.0	0.0	0.0	Per share data		2008A	2009F	2010F	2011F
Incr/(decr) in debt	0.0	0.0	0.0	0.0	0.0	No. shares	171.0	171.0	171.0	171.0	
Ordinary dividend paid	0.0	0.0	0.0	0.0	0.0	EPS (cps)	-3.8	14.0	14.4	12.6	
Preferred dividends (4)	0.0	0.0	0.0	0.0	0.0	EPS (normalised) (c)	-3.8	14.0	14.4	12.6	
Other financing cash flow	0.0	0.0	0.0	0.0	0.0	Dividend per share (c)	0.0	0.0	0.0	0.0	
Cash flow from fin (5)	1.4	-3.0	0.0	0.0	0.0	Dividend payout ratio (%)	0.0	0.0	0.0	0.0	
Forex and disc ops (6)	0.0	0.0	0.0	0.0	0.0	Dividend yield (%)	0.0	0.0	0.0	0.0	
Incr/(decr) cash (1+3+5+6)	21.5	-2.0	17.0	26.0	23.2	Growth ratios		2008A	2009F	2010F	2011F
Equity FCF (1+2+4)	20.1	1.0	17.0	26.0	23.2	Sales growth	-23.8%	90.7%	-12.3%	-33.5%	
						Operating cost growth	35.0%	4.7%	-18.6%	-44.4%	
Balance sheet	2007A	2008A	2009F	2010F	2011F	EBITDA growth				-15.2%	
Cash & deposits	62.2	60.2	77.2	103.1	126.4	EBITA growth				-17.6%	
Trade debtors	9.4	4.3	9.8	8.6	5.7	Operating performance		2008A	2009F	2010F	2011F
Inventory	0.0	0.0	0.0	0.0	0.0	Asset turnover (%)	11.5	20.0	14.4	8.2	
Investments	0.0	0.0	0.0	0.0	0.0	EBITDA margin (%)	-23.4	32.2	37.1	47.4	
Goodwill						EBIT margin (%)	-30.0	27.7	32.1	39.8	
Other intangible assets	13.4	12.1	10.4	8.8	7.1	Net profit margin (%)	-15.5	30.0	35.4	46.5	
Fixed assets	5.2	7.5	6.7	6.8	6.8	Return on net assets (%)	-19.8	25.3	20.0	13.8	
Other assets	2.3	5.2	5.2	5.2	5.2	Net debt (A\$m)	-60.2	-77.2	-103.1	-126.4	
Total assets	92.5	89.3	109.3	132.4	151.1	Net debt/equity (%)	-95.0	-88.5	-92.2	-94.7	
Short-term borrowings	0.0	0.0	0.0	0.0	0.0	Net interest/EBIT cover (x)	3.9	-12.2	-9.7	-6.0	
Trade payables	6.0	12.0	8.1	6.6	3.7	ROIC (%)	-93.4	492.2	156.5	147.7	
Long-term borrowings	0.0	0.0	0.0	0.0	0.0	Internal liquidity		2008A	2009F	2010F	2011F
Provisions	0.0	0.0	0.0	0.0	0.0	Current ratio (x)	2.5	3.9	5.4	7.5	
Other liabilities	14.9	13.9	13.9	13.9	13.9	Receivables turnover (x)	6.1	11.3	7.6	6.5	
Total liabilities	20.9	26.0	22.1	20.5	17.6	Payables turnover (x)	5.7	5.4	6.0	4.7	
Share capital	161.7	159.1	183.0	207.7	229.3						
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	87.2	111.9	133.5						
Minority interest											
Total shareholders' equity	71.5	63.3	87.2	111.9	133.5						
Total liabilities & SE	92.5	89.3	109.3	132.4	151.1						

Source: Company data, ABN AMRO Morgans estimates

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RECOMMENDATION STRUCTURE

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%.

Absolute performance, short-term (trading) recommendation: The Trading Buy/Sell recommendation implies upside/downside of 3% or more. The trading recommendation time horizon is 0-60 days.

Each stock has been assigned a Volatility Rating to assist in assessing the risk of the security. The rating measures the volatility of the security's daily closing price data over the previous year relative to other stocks included in either the S&P/ASX200 Index (large caps) or the Small Ordinaries Index (small caps) of which it is a member. This rating is a quantitative (objective) measure provided as an additional resource and is independent of the qualitative research process undertaken by our research analysts.

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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