Equity | Australia | Pharma & Biotech

29 May 2009

Biota Holdings

Stocking up the medicine cabinet

The Federal Government has purchased additional Relenza. What is of interest to us is the national stockpile now comprises 33% (was 20%) Relenza and the balance Tamiflu. The change in mix indicates a trend towards higher stockpiles of Relenza. Positive for BTA.

Change of recommendation

Hold (from 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.**

High Volatility

Target price
A$1.46 (from A$1.41)

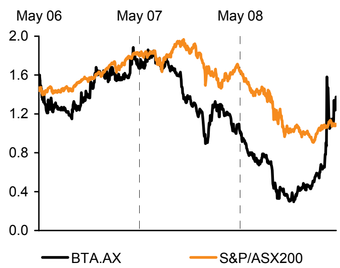
Price
A$1.375

Short term (0-60 days)
Trading Buy

BTA90529

Price performance

	(1M)	(3M)	(12M)
Price (A$)	1.50	0.44	1.00
Absolute (%)	-8.0	212.5	37.5
Rel market (%)	-9.2	178.3	106.8
Rel sector (%)	-15.2	201.2	70.5



Market capitalisation
A$235.13m (US$182.70m)

Average (12M) daily turnover
A$0.70m (US$0.52m)

RIC: BTA.AX, BTA AU
Priced at close of business 28 May 2009.
Source: Bloomberg

Key forecasts

	FY07A	FY08A	FY09F	FY10F	FY11F
EBITDA (A$m)	16.60	-9.78	33.80 ▲	25.90	22.00
Reported net profit (A$m)	20.20	-6.49	30.00 ▲	19.50 ▼	16.30 ▼
Normalised net profit (A$m)¹	20.20	-6.49	30.00 ▲	19.50 ▼	16.30 ▼
Normalised EPS (c)¹	11.20	-3.79	17.60 ▲	11.40 ▼	9.51 ▼
Normalised EPS growth (%)	n/a	n/a	n/a	-35.0	-16.7
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)	12.20	n/m	7.83	12.00	14.50
EV/EBITDA (x)	10.40	n/m	4.47	4.91	4.88
Price/net oper. CF (x)	11.80	48.80	9.38 ▼	9.15 ▲	10.90 ▲
ROIC (%)	1,506	-93.4	630.1	156.4	235.8

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

Another boost to profits

BTA announced that the Australian Government has purchased from GSK an additional 1.6m courses of Relenza for its stockpile. BTA will receive an estimated royalty of A$4.3m. Relenza represents approximately 33% (previously estimated at 20%) of the nation's stockpile. This change in mix between Releanza and Tamiflu supports our view that governments are seeking a more equal balance between the two main antiviral drugs, driven by the resistance issues with Tamflu which have emerged since last year's flu season.

Changes to forecasts

We have made changes to our forecasts which are detailed overleaf.

The next milestones to watch

We are expecting an update on the human rhinovirus (HRV) Phase II programme shortly and then the release of the Phase III results for the long acting version of Relenza, which is due within the next few months.

Investment view – recommendation back to Hold

Following changes to forecasts, our DCF valuation has increased to A$1.46 (was A$1.41). The key assumptions in deriving the valuation include a risk free rate of 5.25%, wacc of 16.0% and a terminal growth rate of 3.5%. We have set our target price at the same level. Risks include a delay in partnering key projects or failure to achieve key end-points. Given the strong share-price rally over the last month we have moved our recommendation back to Hold (from Buy). We have a short-term trading buy open with a target range of A$1.47 to A$1.51. The spread of H1NI (swine flu) is the key driver of this alert.

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Important disclosures regarding companies that are the subject of this report and an explanation of recommendations and volatility can be found at the end of this document.

Table 1 : Changes to Forecasts

	FY09F			FY10F			FY11F			FY12F		
	Old	New	% Change	Old	New	% Change	Old	New	% Change	Old	New	% Change
Revenue	79.6	85.2	7.0%	69.8	69.8	0.0%	46.4	46.4	0.0%	47.4	47.4	0.0%
EBITDA	25.7	33.8	31.3%	25.9	25.9	0.0%	22.0	22.0	-0.1%	39.8	39.8	0.0%
NPAT	23.9	30.0	25.7%	24.7	19.5	-20.9%	21.6	16.3	-24.7%	27.5	34.4	25.3%
EPS	14.0	17.6	25.5%	14.4	11.4	-20.7%	12.6	9.5	-24.5%	16.1	20.1	25.1%

Source: ABN AMRO

In FY09 we have increased our Relenza royalties from A$42m to A$46.3m reflecting today's Australian Government order, also we have increased our amortisation charge to A$3.6m (from A$1.7m) and reduced the clinical costs estimates on the HRV programme by A$3.5m to A$8.1m which is more in line with 1H09 costs. This has resulted in a 25% increase in FY09F NPAT to A$30.0m. For FY10 and FY11 we have assumed a 15% tax rate which better reflects the reduction in tax losses and increased amortisation charges in line with our FY09 estimates. This has resulted in 20.7% and 24.5% decrease in NPAT for FY10 and FY11, respectively.

BTA – financial summary

Year to 30 Jun (A$m)	AIFRS	AIFRS	AIFRS	AIFRS	AIFRS
Income statement	**2007A**	**2008A**	**2009F**	**2010F**	**2011F**
Divisional sales	54.8	41.7	85.2	69.8	46.4
Total revenue	54.8	41.7	85.2	69.8	46.4
EBITDA	**16.6**	**-9.8**	**33.8**	**25.9**	**22.0**
Associate income	0.0	0.0	0.0	0.0	0.0
Depreciation	-1.2	-2.7	-5.5	-5.4	-5.4
EBITA	15.4	-12.5	28.2	20.5	16.5
Amortisation/impairment	0.0	0.0	0.0	0.0	0.0
EBIT	15.4	-12.5	28.2	20.5	16.5
EBIT(incl associate profit)	15.4	-12.5	28.2	20.5	16.5
Net interest expense	2.5	3.2	1.8	2.5	3.2
Pre-tax profit	17.9	-9.3	30.0	23.0	19.8
Income tax expense	2.3	2.8	0.0	-3.5	-3.5
After-tax profit	20.2	-6.5	30.0	19.5	16.3
Minority interests					
NPAT	**20.2**	**-6.5**	**30.0**	**19.5**	**16.3**
Significant items	0.0	0.0	0.0	0.0	0.0
NPAT post abnormals	20.2	-6.5	30.0	19.5	16.3

Cash flow statement	2007A	2008A	2009F	2010F	2011F
EBITDA	16.6	-9.8	33.8	25.9	22.0
Change in working capital	-0.5	8.6	-10.5	0.8	0.0
Net interest (pd)/rec	2.5	3.2	1.8	2.5	3.2
Taxes paid	2.3	2.8	0.0	-3.5	-3.5
Other oper cash items	0.0	0.0	0.0	0.0	0.0
Cash flow from ops (1)	21.0	4.8	25.1	25.7	21.6
Capex (2)	-0.9	-3.8	-1.0	-1.9	-1.8
Disposals/(acquisitions)	0.0	0.0	0.0	0.0	0.0
Other investing cash flow	0.0	0.0	0.0	0.0	0.0
Cash flow from invest (3)	-0.9	-3.8	-1.0	-1.9	-1.8
Incr/(decr) in equity	1.4	-3.0	0.0	0.0	0.0
Incr/(decr) in debt	0.0	0.0	0.0	0.0	0.0
Ordinary dividend paid	0.0	0.0	0.0	0.0	0.0
Preferred dividends (4)	0.0	0.0	0.0	0.0	0.0
Other financing cash flow	0.0	0.0	0.0	0.0	0.0
Cash flow from fin (5)	1.4	-3.0	0.0	0.0	0.0
Forex and disc ops (6)	0.0	0.0	0.0	0.0	0.0
Inc/(decr) cash (1+3+5+6)	21.5	-2.0	24.0	23.8	19.8
Equity FCF (1+2+4)	**20.1**	**1.0**	**24.0**	**23.8**	**19.8**

Balance sheet	2007A	2008A	2009F	2010F	2011F
Cash & deposits	62.2	60.2	84.2	108.0	127.8
Trade debtors	9.4	4.3	10.5	8.6	5.7
Inventory	0.0	0.0	0.0	0.0	0.0
Investments	0.0	0.0	0.0	0.0	0.0
Goodwill					
Other intangible assets	13.4	12.1	8.5	4.9	1.3
Fixed assets	5.2	7.5	6.7	6.8	6.8
Other assets	2.3	5.2	5.2	5.2	5.2
Total assets	**92.5**	**89.3**	**115.0**	**133.4**	**146.8**
Short-term borrowings	0.0	0.0	0.0	0.0	0.0
Trade payables	6.0	12.0	7.8	6.6	3.7
Long-term borrowings	0.0	0.0	0.0	0.0	0.0
Provisions	0.0	0.0	0.0	0.0	0.0
Other liabilities	14.9	13.9	13.9	13.9	13.9
Total liabilities	**20.9**	**26.0**	**21.7**	**20.5**	**17.6**
Share capital	161.7	159.1	189.2	208.7	225.0
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	93.3	112.9	129.1
Minority interest					
Total shareholders' equity	71.5	63.3	93.3	112.9	129.1
Total liabilities & SE	**92.5**	**89.3**	**115.0**	**133.4**	**146.8**

Closing price (A$)	1.375	Price target (A$)	1.46
Valuation metrics			
Preferred methodology	DCF	Val'n (A$)	$ 1.46
DCF valuation inputs			
Rf	5.25%	10-year rate	5.25%
Rm-Rf	6.00%	Margin	2.0%
Beta	1.80	Kd	7.25%
CAPM (Rf+Beta(Rm-Rf))	16.0%	Ke	16.1%
Equity (E/EV)	100.0%	NPV cash flow (A$m)	164.9
Debt (D/EV)	0.0%	Minority interest (A$m)	0.0
Interest rate	7.25%	Net debt (A$m)	-84.2
Tax rate (t)	30.0%	Investments (A$m)	0.0
Franking credit	100.0	Equity market value (A$m)	249.1
WACC	16.1%	Diluted no. of shares (m)	171.0
		DCF valuation (A$)	**1.46**

Multiples	2008A	2009F	2010F	2011F
Enterprise value (A$m)	175.0	150.9	127.2	107.3
EV/Sales (x)	4.2	1.8	1.8	2.3
EV/EBITDA (x)	-17.9	4.5	4.9	4.9
EV/EBIT (x)	-14.0	5.3	6.2	6.5
PE (pre-goodwill) (x)	-36.2	7.8	12.0	14.5

At target price	2008A	2009F	2010F	2011F
EV/EBITDA (x)	-19.3	4.9	5.4	5.5
PE (pre-goodwill) (x)	-38.4	8.3	12.8	15.3

Comparable company data (x)		2009F	2010F	2011F
Avexa	EV/EBITDA	-0.7	0.9	-0.1
Year to 30 Jun	EV/EBIT	-0.7	0.9	-0.1
	PE	-2.3	3.6	3.9
Pharmaxis	EV/EBITDA	-11.8	-15.9	-49.5
Year to 30 Jun	EV/EBIT	-11.3	-14.7	-38.6
	PE	-15.7	-17.3	-45.2

Per share data	2008A	2009F	2010F	2011F
No. shares	171.0	171.0	171.0	171.0
EPS (cps)	-3.8	17.6	11.4	9.5
EPS (normalised) (c)	-3.8	17.6	11.4	9.5
Dividend per share (c)	0.0	0.0	0.0	0.0
Dividend payout ratio (%)	0.0	0.0	0.0	0.0
Dividend yield (%)	0.0	0.0	0.0	0.0

Growth ratios	2008A	2009F	2010F	2011F
Sales growth	-23.8%	104.1%	-18.1%	-33.5%
Operating cost growth	35.0%	-0.2%	-14.7%	-44.4%
EBITDA growth				-15.2%
EBITA growth				-19.3%

Operating performance	2008A	2009F	2010F	2011F
Asset turnover (%)	11.5	20.8	14.0	8.3
EBITDA margin (%)	-23.4	39.6	37.1	47.4
EBIT margin (%)	-30.0	33.1	29.4	35.7
Net profit margin (%)	-15.5	35.3	28.0	35.1
Return on net assets (%)	-19.8	30.2	18.1	12.8
Net debt (A$m)	-60.2	-84.2	-108.0	-127.8
Net debt/equity (%)	-95.0	-90.2	-95.6	-99.0
Net interest/EBIT cover (x)	3.9	-15.6	-8.1	-5.1
ROIC (%)	-93.4	630.1	156.4	235.8

Internal liquidity	2008A	2009F	2010F	2011F
Current ratio (x)	2.5	4.4	5.7	7.6
Receivables turnover (x)	6.1	11.5	7.3	6.5
Payables turnover (x)	5.7	5.2	6.1	4.7

Source: Company data, ABN AMRO Morgans forecasts. Share Price as at 28 May 2009

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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.

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