

11 June 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\$1.53 (from A\$1.46)

Price

A\$1.27

Short term (0-60 days)

Trading Buy

BTA90611

Price performance

	(1M)	(3M)	(12M)
Price (A\$)	1.07	0.51	0.92
Absolute (%)	18.7	146.6	38.0
Rel market (%)	16.3	95.1	86.5
Rel sector (%)	13.2	111.7	69.6


Market capitalisation

A\$206.91m (US\$167.01m)

Average (12M) daily turnover

A\$0.74m (US\$0.55m)

RIC: BTA.AX, BTA AU
 Priced at close of business 11 Jun 2009.
 Source: Bloomberg

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Biota Holdings

Showing pipeline depth

BTA has achieved clinical proof-of-concept for its Phase IIa of its human rhinovirus (HRV). BTA achieved this goal with fewer volunteers and significantly lower costs than expected. A big upgrade to profits, again. Move to Buy, more news to come.

Key forecasts

	FY07A	FY08A	FY09F	FY10F	FY11F
EBITDA (A\$m)	16.60	-9.78	38.80 ▲	33.90 ▲	22.00
Reported net profit (A\$m)	20.20	-6.49	35.00 ▲	27.70 ▲	16.50
Normalised net profit (A\$m) ¹	20.20	-6.49	35.00 ▲	27.70 ▲	16.50
Normalised EPS (c) ¹	11.20	-3.79	20.50 ▲	16.20 ▲	9.66
Normalised EPS growth (%)	n/a	n/a	n/a	-20.9	-40.4
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)	10.80	n/m	5.90	7.46	12.50
EV/EBITDA (x)	8.71	n/m	3.06	2.56	2.99
Price/net oper. CF (x)	10.40	43.00	7.06 ▼	6.19 ▼	8.95 ▼
ROIC (%)	1,506	-93.4	741.7	201.0	189.3

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

Proof of concept achieved

BTA announced its Phase IIa challenge study of (BTA798) its orally-active inhibitor of HRV was successful in demonstrating proof-of-concept in humans and was shown to reduce the incidence and severity of an HRV infection. The result was achieved in fewer subjects than was expected, 41 volunteers were used compared with the original design of four groups of 60 subjects. As a result the costs were and are expected to be substantially lower (approximately A\$4m per annum) than our estimate of A\$9m and A\$12.5m for FY10 and FY11 respectively. Further studies will be developed to confirm efficacy and safety in target patient groups and will be discussed with regulatory agencies. BTA intends to license the global rights to the HRV programme. The HRV programme represents 12cps of our valuation.

Upgrade to forecasts and milestones to watch

As a result of the lower costs of the HRV trial, we have upgraded our forecasts by 16.4% and 431.9% for FY09 and FY10 respectively. Details are contained overleaf. GSK will report quarterly Relenza numbers of 23 July. Our current forecast is for FY09 royalties of A\$47.6m (or a 4Q royalty of A\$11.6m). We are expecting the release of the Phase III results for the long-acting version of Relenza which is due within the next two months.

Investment view – Recommendation up to Buy

Following changes to forecasts our DCF valuation has increased to A\$1.53 (was A\$1.46). 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 the price target at the same level. Risks include a failure to achieve key end points in the LANI programme. Given the near-term news flow we have upgraded to Buy (from Hold).

Table 1 : Changes to forecasts

A\$m	FY09F			FY10F			FY11F		
	Old	New	% Change	Old	New	% Change	Old	New	% Change
Revenue	85.2	85.2	0.0%	69.8	69.8	0.0%	46.4	46.4	0.0%
EBITDA	33.8	38.8	14.7%	25.9	33.9	30.9%	22.0	22.0	-0.1%
NPAT	30.0	35.0	16.8%	19.5	25.7	31.9%	16.3	16.5	1.1%
EPS (c)	17.6	20.5	16.4%	11.4	16.2	31.9%	9.5	9.6	1.4%

Source: ABN AMRO Morgans forecasts

BTA – financial summary

Year to 30 Jun (A\$m)	AIFRS 2007A	AIFRS 2008A	AIFRS 2009F	AIFRS 2010F	AIFRS 2011F	Closing price (A\$)	1.270	Price target (A\$)	1.53		
Income statement						Valuation metrics					
Divisional sales	54.8	41.7	85.2	69.8	46.4	Preferred methodology	DCF	Val'n (A\$)	\$ 1.53		
Total revenue	54.8	41.7	85.2	69.8	46.4	DCF valuation inputs					
EBITDA	16.6	-9.8	38.8	33.9	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	-5.5	-5.4	-5.4	Beta	1.80	Kd	7.25%		
EBITA	15.4	-12.5	33.2	28.5	16.5	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)	173.0		
EBIT	15.4	-12.5	33.2	28.5	16.5	Debt (D/EV)	0.0%	Minority interest (A\$m)	0.0		
EBIT(incl associate profit)	15.4	-12.5	33.2	28.5	16.5	Interest rate	7.25%	Net debt (A\$m)	-88.4		
Net interest expense	2.5	3.2	1.8	2.7	3.6	Tax rate (t)	30.0%	Investments (A\$m)	0.0		
Pre-tax profit	17.9	-9.3	35.0	31.1	20.1	Franking credit	100.0%	Equity market value (A\$m)	261.4		
Income tax expense	2.3	2.8	0.0	-3.4	-3.6	WACC	16.1%	Diluted no. of shares (m)	171.0		
After-tax profit	20.2	-6.5	35.0	27.7	16.5			DCF valuation (A\$)	1.53		
Minority interests						Multiples		2008A	2009F	2010F	2011F
NPAT	20.2	-6.5	35.0	27.7	16.5	Enterprise value (A\$m)	146.7	118.5	87.0	65.7	
Significant items	0.0	0.0	0.0	0.0	0.0	EV/Sales (x)	3.5	1.4	1.2	1.4	
NPAT post abnormal	20.2	-6.5	35.0	27.7	16.5	EV/EBITDA (x)	-15.0	3.1	2.6	3.0	
						EV/EBIT (x)	-11.7	3.6	3.1	4.0	
						PE (pre-goodwill) (x)	-31.9	5.9	7.5	12.5	
Cash flow statement	2007A	2008A	2009F	2010F	2011F	At target price	2008A	2009F	2010F	2011F	
EBITDA	16.6	-9.8	38.8	33.9	22.0	EV/EBITDA (x)	-20.6	4.5	4.2	5.5	
Change in working capital	-0.5	8.6	-11.3	0.3	1.2	PE (pre-goodwill) (x)	-40.3	7.5	9.4	15.8	
Net interest (pd)/rec	2.5	3.2	1.8	2.7	3.6						
Taxes paid	2.3	2.8	0.0	-3.4	-3.6	Comparable company data (x)		2009F	2010F	2011F	
Other oper cash items	0.0	0.0	0.0	0.0	0.0	Avexa	EV/EBITDA	-0.6	0.5	-0.4	
Cash flow from ops (1)	21.0	4.8	29.3	33.4	23.1	Year to 30 Jun	EV/EBIT	-0.6	0.5	-0.4	
Capex (2)	-0.9	-3.8	-1.0	-1.9	-1.8		PE	-2.1	3.3	3.5	
Disposals/(acquisitions)	0.0	0.0	0.0	0.0	0.0	Pharmaxis	EV/EBITDA	-11.6	-15.7	-48.9	
Other investing cash flow	0.0	0.0	0.0	0.0	0.0	Year to 30 Jun	EV/EBIT	-11.1	-14.5	-38.1	
Cash flow from invest (3)	-0.9	-3.8	-1.0	-1.9	-1.8		PE	-15.5	-17.1	-44.6	
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	Per share data	2008A	2009F	2010F	2011F	
Ordinary dividend paid	0.0	0.0	0.0	0.0	0.0	No. shares	171.0	171.0	171.0	171.0	
Preferred dividends (4)	0.0	0.0	0.0	0.0	0.0	EPS (cps)	-3.8	20.5	16.2	9.7	
Other financing cash flow	0.0	0.0	0.0	0.0	0.0	EPS (normalised) (c)	-3.8	20.5	16.2	9.7	
Cash flow from fin (5)	1.4	-3.0	0.0	0.0	0.0	Dividend per share (c)	0.0	0.0	0.0	0.0	
Forex and disc ops (6)	0.0	0.0	0.0	0.0	0.0	Dividend payout ratio (%)	0.0	0.0	0.0	0.0	
Incr/(decr) cash (1+3+5+6)	21.5	-2.0	28.3	31.5	21.3	Dividend yield (%)	0.0	0.0	0.0	0.0	
Equity FCF (1+2+4)	20.1	1.0	28.3	31.5	21.3	Growth ratios	2008A	2009F	2010F	2011F	
						Sales growth	-23.8%	104.1%	-18.1%	-33.5%	
Balance sheet	2007A	2008A	2009F	2010F	2011F	Operating cost growth	35.0%	-9.9%	-22.7%	-32.0%	
Cash & deposits	62.2	60.2	88.4	119.9	141.2	EBITDA growth				-35.2%	
Trade debtors	9.4	4.3	10.5	8.6	5.7	EBITA growth				-41.9%	
Inventory	0.0	0.0	0.0	0.0	0.0	Operating performance	2008A	2009F	2010F	2011F	
Investments	0.0	0.0	0.0	0.0	0.0	Asset turnover (%)	11.5	20.4	13.2	7.6	
Goodwill						EBITDA margin (%)	-23.4	45.5	48.6	47.4	
Other intangible assets	13.4	12.1	8.5	4.9	1.3	EBIT margin (%)	-30.0	39.0	40.8	35.7	
Fixed assets	5.2	7.5	6.7	6.8	6.8	Net profit margin (%)	-15.5	41.1	39.7	35.6	
Other assets	2.3	5.2	5.2	5.2	5.2	Return on net assets (%)	-19.8	33.8	22.6	11.6	
Total assets	92.5	89.3	119.3	145.4	160.2	Net debt (A\$m)	-60.2	-88.4	-119.9	-141.2	
Short-term borrowings	0.0	0.0	0.0	0.0	0.0	Net debt/equity (%)	-95.0	-89.9	-95.1	-99.1	
Trade payables	6.0	12.0	7.0	5.4	3.7	Net interest/EBIT cover (x)	3.9	-18.4	-10.7	-4.6	
Long-term borrowings	0.0	0.0	0.0	0.0	0.0	ROIC (%)	-93.4	741.7	201.0	189.3	
Provisions	0.0	0.0	0.0	0.0	0.0	Internal liquidity	2008A	2009F	2010F	2011F	
Other liabilities	14.9	13.9	13.9	13.9	13.9	Current ratio (x)	2.5	4.7	6.6	8.3	
Total liabilities	20.9	26.0	20.9	19.3	17.6	Receivables turnover (x)	6.1	11.5	7.3	6.5	
Share capital	161.7	159.1	194.2	221.9	238.4	Payables turnover (x)	5.7	4.9	5.8	5.4	
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	98.3	126.1	142.6						
Minority interest											
Total shareholders' equity	71.5	63.3	98.3	126.1	142.6						
Total liabilities & SE	92.5	89.3	119.3	145.4	160.2						

Source: Company data, ABN AMRO Morgans forecasts

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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.

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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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