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Biota Holdings Limited (BTA)

Outperform

Relenza™ Capacity Tripled to 190m; Major Re-Rating On the Cards

\$1.62

Thomas Duthy *PhD MBA*
tduthy@taylorcollison.com.au
+61 2 9232 1688

Key Points

GSK announced annual Relenza™ capacity will reach 190m courses by the end of CY09, 3x increase over last guidance and well ahead of expectations.

GSK also reported quarterly Relenza™ sales of €60m (A\$122.5m) with US, European and ROW sales of £19m, £25m, and £16m, respectively.

Capacity built in response to global government demand, with supply contracts in place for >60 countries, a major expansion in interest.

GSK confirmed CY09 capacity has all been sold.

Biota reported royalties of A\$8.9m for the 4Q09, and \$45.0m for FY09, up 120% on pcp and in-line with expectations.

Summary

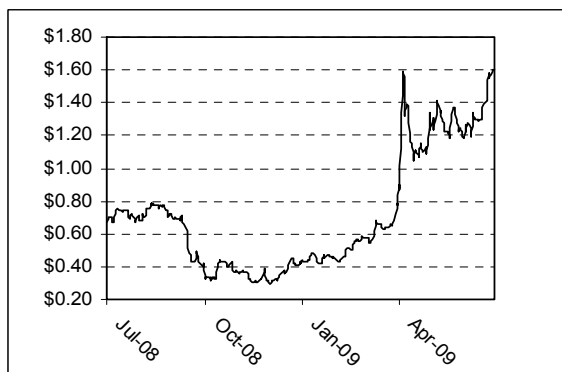
Market Capitalisation (M)	\$282.9
Share Price	\$1.62
Shares on Issue (M)	174.6
Av. Monthly Volume (Yr Rolling)(M)	14.4
52 Week High	\$1.79
52 Week Low	\$0.29
Valuation Per Share (fully diluted)	\$2.60
Cash (M) as at 31/12/08	\$55.4

Key Financials (A\$'000)

Year End	FY08 Actual	FY09 Est.	FY10 Est.
Relenza Royalties	20,544	45,019	134,503
Partnering Income*	5,871	4,069	14,410
Total Revenue	44,989	64,224	154,134
Total Op. Expenses	(41,397)	(20,868)	(12,579)
R&D Expenses	(10,287)	(13,621)	(11,274)
EBITDA	(9,897)	39,626	126,769
Normalised NPAT	10,735	13,394	93,908
Adj. NPAT	(6,489)	31,870	93,908
Adj. EPS (c)	(3.5)	18.3	53.8
Adj. PE Ratio (x)	n/a	8.9	3.0

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

Share Price Graph (A\$)



Our View

- This is a major new initiative for GSK, which will add substantial benefits to Biota. GSK will grow current Relenza™ Rotadisk/Diskhaler production from 60m to 90m and build a further 100m capacity for Relenza™ under a new Rotacap/Rotahaler inhaler system, which has received special European approval for pandemic distribution only (not seasonal). GSK is also working to secure approval across other regulatory agencies globally. GSK expects share of pandemic stockpiles to increase with governments now likely to sustain a stockpile over a period of time. Such potential for rapid uplift in capacity will prove attractive for government health regulators in re-balancing pandemic stockpiles from a global average of 87% Tamiflu®, 13% Relenza™. This is evidenced by a significant expansion in jurisdictional contracts, of which 93% are still confidential. GSK expects a more reliable spike/shoulder demand cycle for pandemic stockpiling. Given resistance concerns for Tamiflu® and the Phase 3 i.v. drug peramivir, the US Department of Health and Human Services (HHS) has flagged an intention to move the US pandemic stockpile to 50/50 Tamiflu®/Relenza™ (currently 80/20), which we forecast could provide \$75.6m in royalties to Biota.
- We maintain our FY09 PBT of \$37.4m, with an effective tax expense of 15.1% now forecast (no net cash effect), generating NPAT of \$31.3m. As a result of GSK comments, and the HHS intention particularly, we are upgrading our FY10, FY11 Relenza™ estimates by 310% and 57.3% to \$134.5m and \$54.4m, respectively (see Appendix 1). Given the confidential nature of gov't contracts, visibility on Relenza™ sales remains low which may impact estimates. However, for FY10, our volume estimates are 76.9m courses and 31.1m in FY11 (inc. replenishment), which is well below capacity guidance issued. Investors should also focus on the LANI (CS-8958) Phase 3 result from Daiichi-Sankyo, which we believe has an excellent chance of success as cited previously. This result is expected late July/early August. We note Biota currently trades on 3.0x FY10 EPS, and 0.8x on an EV/EBITDA basis. With a ballooning cash balance, no debt, multiple-funded R&D/clinical programs and potential for additional partnering deals (LANI, HRV), we believe further capital management +/- in-licensing are likely themes for FY10. We have upgraded our price target by 44.4% to \$2.60 and given the earnings outlook have moved from a Speculative Buy recommendation to Outperform.

Appendix 1

Changes to Forecasts

	FY09E			FY10E			FY11E		
	Previous	Revised	Change	Previous	Revised	Change	Previous	Revised	Change
Relenza Volumes (m)	26.1	25.7	-1.4%	18.7	76.9	311.0%	19.8	31.1	57.0%
Relenza Royalties (A\$m)	45.6	45.0	-1.3%	32.8	134.5	310.1%	34.6	54.4	57.3%
EBITDA	39.7	39.6	-0.2%	33.5	126.8	278.4%	21.9	42.3	93.4%
Adj. NPAT	37.4	31.9	-14.8%	27.9	93.9	236.6%	18.3	33.0	80.3%
Adj. EPS (c)	21.4	18.3	-14.7%	16.0	53.8	236.2%	10.5	18.9	80.0%

Source: Taylor Collison estimates

Biota Holdings Limited - Summary of Forecasts

BTA \$1.62

PROFIT & LOSS SUMMARY (A\$'000)				
	FY08A	FY09E	FY10E	FY11E
Relenza Royalties	20,544	45,019	134,503	54,417
Partnering (Licence) Income	5,871	4,069	14,410	10,667
Research income (inc Grants)	15,042	12,171	1,624	700
Total Revenue	44,989	64,224	154,134	72,930
<i>Growth (pcp)</i>	-21.5%	42.8%	140.0%	-52.7%
Net Gain on GSK Settlement	0	12,736	0	0
Net Operating Revenue	3,592	56,092	141,555	60,643
R&D Expenses	(10,287)	(13,621)	(11,274)	(11,903)
EBITDA	(9,897)	39,626	126,769	42,349
Depreciation	(933)	(1,207)	(1,254)	(1,616)
Amortisation	(1,681)	(3,827)	(8,286)	0
EBIT	(12,511)	34,593	117,229	40,733
Net Interest	3,202	2,845	3,512	6,392
Pre-Tax Profit	(9,309)	37,438	120,740	47,124
Tax Expense	2,820	(5,568)	(26,832)	(14,137)
Minorities	0	0	0	0
NPAT Normalised *	10,735	13,394	93,908	32,987
NPAT Adj.	(6,489)	31,870	93,908	32,987
<i>Growth (pcp)</i>	n/a	n/a	194.7%	-64.9%
Net Adjustments	0	0	0	0
Reported Profit	(6,489)	31,870	93,908	32,987

PER SHARE DATA				
Period	FY08A	FY09E	FY10E	FY11E
Adjusted EPS (c)	(3.5)	18.3	53.8	18.9
<i>Growth (pcp)</i>	n/a	n/a	194.7%	-64.9%
Reported EPS (c)	(3.5)	18.3	53.8	18.9
<i>Growth (pcp)</i>	n/a	n/a	194.7%	-64.9%
Dividend (c)	0.0	0.0	0.0	0.0
Franking	0%	0%	0%	0%
Gross CF per Share (c)	2.6	19.5	52.8	31.0
NTA per share (c)	28.0	50.2	112.5	129.8

VALUATION MULTIPLES				
Period	FY08A	FY09E	FY10E	FY11E
Adjusted PE Ratio (x)	n/a	8.9	3.0	8.6
PE Ratio (x)	n/a	8.9	3.0	8.6
Dividend Yield (%)	n/a	0.0%	0.0%	0.0%
EV/EBITDA (x)	n/a	4.9	0.8	1.2
EV/EBIT (x)	n/a	5.6	0.9	1.3

CAPITAL RAISING ASSUMPTIONS				
Period	FY08A	FY09E	FY10E	FY11E
Shares Issued (m)	0.0	0.0	0.0	0.0
Issue Price (A\$)	0.0	0.0	0.0	0.0
Cash Raised (A\$m)	0.0	0.0	0.0	0.0

KEY RATIOS				
Period	FY08A	FY09E	FY10E	FY11E
EBITDA/Sales Margin %	-22.0%	61.7%	82.2%	58.1%
EBIT/Sales Margin %	-27.8%	53.9%	76.1%	55.9%
Current ratio (x)	3.4	5.5	17.4	16.3
Net Debt : Equity (%)	-94.8%	-91.5%	-90.9%	-102.0%
ROE (%)	-9.6%	40.0%	64.3%	15.6%
Dividend Payout Ratio (%)	n/a	0.0%	0.0%	0.0%

*Excluding litigation expense and settlement, tax effected at 30%

BALANCE SHEET SUMMARY (A\$'000)				
Period	FY08A	FY09E	FY10E	FY11E
Cash	60,164	87,775	178,452	231,120
Receivables	4,270	16,056	29,285	13,857
Inventories	0	0	0	0
Other	0	0	0	0
Total Current Assets	64,434	103,832	207,737	244,976
Inventories	0	0	0	0
Property Plant & Equip	7,543	7,836	8,082	7,966
Intangibles	12,113	8,286	0	0
Other	5,168	1,720	0	0
Total Non-Current Assets	24,824	17,843	8,082	7,966
TOTAL ASSETS	89,258	121,674	215,819	252,942
Accounts Payable	12,023	14,772	10,789	10,940
Borrowings	0	0	0	0
Provisions	1,122	1,122	1,122	1,330
Other	6,059	3,125	0	2,733
Total Current Liab	19,204	19,019	11,911	15,003
Borrowings	132	0	0	0
Provisions	6,622	6,752	7,530	11,307
Other	0	0	0	0
Total Non-Current Liab	6,754	6,752	7,530	11,307
TOTAL LIABILITIES	25,958	25,771	19,441	26,310
TOTAL EQUITY	63,300	95,904	196,378	226,632

CASH FLOW SUMMARY (A\$'000)				
Period	FY08A	FY09E	FY10E	FY11E
EBIT (excl Abs/Extr)	(12,511)	34,593	117,229	40,733
Add: Depreciation	933	1,207	1,254	1,616
Amortisation	1,681	3,827	8,286	0
Change in Pay.	6,019	2,749	(3,982)	150
Less: Tax paid	2,820	(5,568)	(26,832)	(14,137)
Net Interest	3,202	2,845	3,512	6,392
Change in Rec.	5,080	(11,786)	(13,229)	15,429
Change in Inv.	0	0	0	0
Other	(4,090)	2,364	(2,347)	3,986
Gross Cashflows	4,815	34,056	92,176	54,168
Capex	(3,785)	(1,500)	(1,500)	(1,500)
Free Cashflows	1,030	32,556	90,676	52,668
Re-Purchase of Shares**	(3,022)	(4,945)	0	0
Net Cash Flow	(1,992)	27,611	90,676	52,668

** Biota bought back 9.17m shares, or 5% of its issued capital, ending 7th Oct 2008

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Analyst: Thomas Duthy

Release Authorised by: Mark Pittman

Taylor Collison Limited
Sharebrokers and Investment Advisers
A.B.N. 53 008 172 450 AFSL No. 247083

Level 16, 211 Victoria Square
Adelaide, South Australia, 5000
G.P.O. Box 2046, Adelaide, South Australia, 5001
Telephone: 08 8217 3900 Facsimile: 08 8231 3506
Email: broker@taylorcollison.com.au

Level 10, 167 Macquarie Street
Sydney, New South Wales, 2000
G.P.O. Box 4261, Sydney, New South Wales, 2001
Telephone: 02 9377 1500 Facsimile: 02 9232 1677
Email: sydney1@taylorcollison.com.au

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