

10 August 2009

Produced and issued by: ABN AMRO Morgans Limited

Biota Holdings

Waiting for government orders

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\$2.24 (from A\$2.25)

Price

A\$2.17

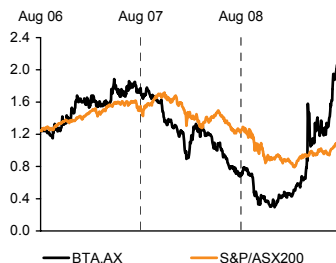
Short term (0-60 days)

n/a

BTA90810

Price performance

	(1M)	(3M)	(12M)
Price (A\$)	1.38	1.12	0.75
Absolute (%)	57.8	94.6	191.3
Rel market (%)	38.3	78.3	237.6
Rel sector (%)	52.5	70.0	247.8



Market capitalisation

A\$371.07m (US\$311.25m)

Average (12M) daily turnover

A\$0.99m (US\$0.74m)

RIC: BTA.AX, BTA AU
 Priced at close of business 10 Aug 2009.
 Source: Bloomberg

Analysts

Scott Power

+61 7 3334 4884
 scottp@abnamromorgans.com.au

Tanya Solomon

+61 7 3334 4521
 tsolomon@abnamromorgans.com.au

ABN AMRO Morgans Limited
 (A.B.N. 49 010 669 726) AFSL235410
 A Participant of ASX Group

www.abnamromorgans.com.au

BTA has made a positive announcement in respect of its long-acting version of Relenza™. We now await further government orders for the product, particularly from the UK and US. BTA's share price has rallied strongly and is now close to our target. Traders can take some profit.

Key forecasts

	FY07A	FY08A	FY09F	FY10F	FY11F
EBITDA (A\$m)	16.60	-9.78	42.20	115.4	164.6
Reported net profit (A\$m)	20.20	-6.49	35.10	89.80	113.9
Normalised net profit (A\$m) ¹	20.20	-6.49	35.10	89.80	113.9
Normalised EPS (c) ¹	11.20	-3.79	20.50	52.50	66.60
Normalised EPS growth (%)	n/a	n/a	n/a	155.5	26.90
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)	19.30	n/m	10.60	4.13	3.26
EV/EBITDA (x)	18.60	n/m	6.72	1.73	0.53
Price/net oper. CF (x)	18.60	77.10	12.90 ▲	4.32 ▲	3.28 ▲
ROIC (%)	1,506	-93.4	817.7	733.0	686.3

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

Long-acting Relenza™ gets tick

BTA has announced positive Phase III results in adults for a single inhaled dose of its long-acting version of Relenza™ (now named laninamivir). The Phase III trial showed that a single inhaled dose of laninamivir was as effective as oseltamivir (Tamiflu) administered orally, twice daily for five days. Laninamivir is co-owned by Daiichi Sankyo (Japan's largest pharmaceutical company), which will seek approval from the Japanese regulatory authorities, with a submission in March 2010. A licensing partner will be sought outside Japan. Given the significant interest in influenza, we believe there is a strong chance that a licensing agreement could be achieved over the next six months.

Licensed program halted – immaterial impact

In other news, BTA's partner, AstraZenca, has halted the RSV (respiratory syncytial virus) program as it did not meet the required safety margins. We had not factored this program into our forecasts. BTA will spend A\$3m on the back-up programs and then re-license.

The next milestone to watch

The next milestone will be GSK's quarterly result, due mid October 2009. We expect continued strong growth in Relenza™ royalties. We forecast royalties of A\$133m for FY10, driven by government orders, mainly from the UK and US. The timing is hard to predict, but we would not be surprised if an announcement was made shortly.

Investment view – move to Hold, taking some profit

With minor changes to our forecasts, our DCF valuation and target price fall to A\$2.24 (from A\$2.25). We move to a Hold and suggest clients take some profit. The upside risk to our target price is GSK receiving large government orders for Relenza™. The downside risks relates to delays in GSK scaling up production. We would be buyers of BTA at cA\$2.00.

LANI Phase III clinical trials in Asia prove successful

BTA has announced positive Phase III results in adults for a single inhaled dose of its long-acting version of Relenza™ (now named laninamivir). The Phase III trial showed that a single inhaled dose of laninamivir was as effective as oseltamivir (Tamiflu) administered orally, twice daily for five days (total of 10 doses). A parallel Phase II/III trial of laninamivir in paediatric patients also met the primary and secondary endpoints compared to oseltamivir.

The Phase III study was conducted by Daiichi Sankyo (co-owner of the product), which enrolled about 1,000 adult patients who had confirmed, naturally acquired influenza A or B. Patients in the trial received either 20mg or 40mg of laninamivir as a single inhaled dose, or 75mg of oseltamivir twice daily for five days. The primary end point of the trial was time to symptom resolution, while the secondary end point was time for body temperature to return to normal. Both doses of laninamivir were as effective as oseltamivir and were well tolerated.

The parallel Phase II/III double-blind paediatric study of laninamivir was conducted in Japan in about 180 children aged nine years or younger. This study also compared the safety and efficacy of 20mg or 40mg of laninamivir as a single inhaled dose with oseltamivir, administered at a dose of 2mg/kg twice daily for five days. About 60 children were enrolled in each treatment arm of the study. The primary and secondary end points used in this trial were the same as those used in the adult study. Both doses of laninamivir were equivalent to oseltamivir and were well tolerated by paediatric patients. There was also a trend towards the single inhaled doses of 20mg or 40mg of laninamivir showing a faster time to the alleviation of influenza illness than oseltamivir dosed at 2mg/kg twice daily for five days.

Laninamivir approval timeline and licensing opportunity

Daiichi Sankyo will seek approval from the Japanese regulatory authorities to market laninamivir in Japan, with a submission expected in March 2010. A licensing partner will be sought outside Japan. Given the significant interest in influenza, we believe there is a strong chance that a licensing agreement could be achieved over the next six months. Our valuation for laninamivir is A\$0.90, with most of the valuation revolving around our assumption of successfully out-licensing the product. In terms of the Japanese market, we assume modest milestone payments of royalties on sales. BTA will help progress the clinical program to gain registration in the US and Europe. To date a \$US5.6m grant from the US National Institutes of Health has been committed.

Changes to forecasts and valuation

The key change to our forecast in FY10 is an additional A\$3m of spend on the RSV program. Following this change, our DCF valuation has declined to A\$2.24 (from A\$2.25). The key assumptions in deriving our valuation include a risk-free rate of 5.25%, a WACC of 16.0% and a terminal growth rate of 3.5%. We have set our target price at the same level as our valuation. The timing of significant government orders is key to share price movements in the short term. This is difficult to predict, although we believe both the UK and the US governments could look to place significant orders in the near term. This would underpin our forecasts and GSK's intention to increase production from 60m to 190m courses. The upside risk to our target price revolves around GSK receiving these government orders. In previous notes we highlighted the growing body of evidence suggesting resistance is emerging to the competing product, Tamiflu, to certain H1N1 strains. We believe governments may look to rebalance their stockpiles with a more equal weighting towards Relenza™. Typically, global stockpiles are 20% Relenza™ and 80% Tamiflu.

Table 1 : Changes to forecasts

(A\$m)	FY09F			FY10F			FY11F			FY12F		
	Old	New	Change	Old	New	Change	Old	New	Change	Old	New	Change
Revenue	82.6	82.6	0.0%	153.8	148.8	-3.3%	188.5	188.5	0.0%	43.0	43.0	0.0%
EBITDA	42.2	42.2	-0.1%	118.4	115.4	-2.5%	164.6	164.6	0.0%	35.9	35.9	0.0%
NPAT	35.1	35.1	0.1%	91.9	89.8	-2.3%	114.0	113.9	-0.1%	28.5	28.5	-0.1%
EPS	20.5	20.5	0.2%	53.7	52.5	-2.2%	66.7	66.6	-0.1%	16.7	16.7	-0.3%

Source: ABN AMRO Morgans forecasts

Milestones to watch**Table 2 : Milestones to watch**

Milestone	Timing	Impact
LANI results	Aug-09	Achieved
GSK quarterly results	Oct-09	Positive
Government orders	Various	Positive
Regulatory approval of Rotacaps	3QCY09	Positive

Source: ABN AMRO Morgans

Investment view

BTA's share price has increased significantly over the past four months, reflecting the growing concerns around Swine Flu. BTA looks well placed to benefit. Traders may care to take some profit at around A\$2.20. Long-term investors should Hold as we anticipate further newsflow to maintain interest in the stock. We have moved our recommendation back to Hold (from Buy) and would be buyers at around A\$2.00.

BTA overview

BTA is a leading anti-infective drug-development company with expertise in respiratory diseases, particularly influenza. Biota developed the flu drug known as Relenza™ and marketed by GlaxoSmithKline (GSK). Relenza™ is used to treat seasonal influenza and is being stockpiled by various governments for defence against possible pandemic outbreaks of avian (bird) and swine (pig) influenza. BTA receives a 7% royalty on the sale of each course of Relenza™.

BTA – financial summary

Year to 30 Jun (A\$m)	AIFRS 2007A	AIFRS 2008A	AIFRS 2009F	AIFRS 2010F	AIFRS 2011F	Closing price (A\$)	2.170	Price target (A\$)	2.24		
Income statement	2007A	2008A	2009F	2010F	2011F	Valuation metrics					
Divisional sales	54.8	41.7	82.6	148.8	188.5	Preferred methodology	DCF	Val'n (A\$)	\$ 2.24		
Total revenue	54.8	41.7	82.6	148.8	188.5	DCF valuation inputs					
EBITDA	16.6	-9.8	42.2	115.4	164.6	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	36.6	110.0	159.2	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)	295.4		
EBIT	15.4	-12.5	36.6	110.0	159.2	Debt (D/EV)	0.0%	Minority interest (A\$m)	0.0		
EBIT(incl associate profit)	15.4	-12.5	36.6	110.0	159.2	Interest rate	7.25%	Net debt (A\$m)	-87.9		
Net interest expense	2.5	3.2	1.8	2.6	5.2	Tax rate (t)	30.0%	Investments (A\$m)	0.0		
Pre-tax profit	17.9	-9.3	38.4	112.6	164.3	Franking credit	100.0%	Equity market value (A\$m)	383.3		
Income tax expense	2.3	2.8	-3.3	-22.9	-50.4	WACC	16.1%	Diluted no. of shares (m)	171.0		
After-tax profit	20.2	-6.5	35.1	89.8	113.9			DCF valuation (A\$)	2.24		
Minority interests						Multiples		2008A	2009F	2010F	2011F
NPAT	20.2	-6.5	35.1	89.8	113.9	Enterprise value (A\$m)	292.1	264.3	180.3	69.1	
Significant items	0.0	0.0	0.0	0.0	0.0	EV/Sales (x)	7.0	3.2	1.2	0.4	
NPAT post abnormal	20.2	-6.5	35.1	89.8	113.9	EV/EBITDA (x)	-29.9	6.3	1.6	0.4	
						EV/EBIT (x)	-23.3	7.2	1.6	0.4	
Cash flow statement	2007A	2008A	2009F	2010F	2011F	PE (pre-goodwill) (x)	-54.3	10.0	3.9	3.1	
EBITDA	16.6	-9.8	42.2	115.4	164.6	At target price		2008A	2009F	2010F	2011F
Change in working capital	-0.5	8.6	-11.8	-9.2	-6.3	EV/EBITDA (x)	-33.0	7.0	1.8	0.6	
Net interest (pd)/rec	2.5	3.2	1.8	2.6	5.2	PE (pre-goodwill) (x)	-59.1	10.9	4.3	3.4	
Taxes paid	2.3	2.8	-3.3	-22.9	-50.4	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	28.8	86.0	113.0	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	-11.0	-10.0	-11.7	
Other investing cash flow	0.0	0.0	0.0	0.0	0.0	Year to 30 Jun	EV/EBIT	-10.5	-9.5	-11.0	
Cash flow from invest (3)	-0.9	-3.8	-1.0	-1.9	-1.8		PE	-16.5	-12.5	-12.7	
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	20.5	52.5	66.6	
Preferred dividends (4)	0.0	0.0	0.0	0.0	0.0	EPS (normalised) (c)	-3.8	20.5	52.5	66.6	
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	27.8	84.0	111.2	Growth ratios		2008A	2009F	2010F	2011F
Equity FCF (1+2+4)	20.1	1.0	27.8	84.0	111.2	Sales growth	-23.8%	97.9%	80.1%	26.7%	
						Operating cost growth	35.0%	-21.5%	-17.5%	-28.4%	
Balance sheet	2007A	2008A	2009F	2010F	2011F	EBITDA growth				42.6%	
Cash & deposits	62.2	60.2	87.9	172.0	283.2	EBITA growth				44.7%	
Trade debtors	9.4	4.3	10.2	18.3	23.2	Operating performance		2008A	2009F	2010F	2011F
Inventory	0.0	0.0	0.0	0.0	0.0	Asset turnover (%)	11.5	19.9	22.8	17.9	
Investments	0.0	0.0	0.0	0.0	0.0	EBITDA margin (%)	-23.4	51.0	77.6	87.3	
Goodwill						EBIT margin (%)	-30.0	44.4	73.9	84.4	
Other intangible assets	13.4	12.1	8.5	4.9	1.3	Net profit margin (%)	-15.5	42.5	60.3	60.4	
Fixed assets	5.2	7.5	6.7	6.8	6.8	Return on net assets (%)	-19.8	37.2	58.4	52.7	
Other assets	2.3	5.2	5.2	5.2	5.2	Net debt (A\$m)	-60.2	-87.9	-172.0	-283.2	
Total assets	92.5	89.3	118.5	207.2	319.7	Net debt/equity (%)	-95.0	-89.3	-91.4	-93.7	
Short-term borrowings	0.0	0.0	0.0	0.0	0.0	Net interest/EBIT cover (x)	3.9	-20.3	-41.7	-30.9	
Trade payables	6.0	12.0	6.1	5.0	3.6	ROIC (%)	-93.4	817.7	733.0	686.3	
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	4.9	10.0	17.5	
Other liabilities	14.9	13.9	13.9	13.9	13.9	Receivables turnover (x)	6.1	11.4	10.4	9.1	
Total liabilities	20.9	26.0	20.0	19.0	17.5	Payables turnover (x)	5.7	4.5	6.0	5.5	
Share capital	161.7	159.1	194.3	284.0	398.0						
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	98.4	188.2	302.1						
Minority interest											
Total shareholders' equity	71.5	63.3	98.4	188.2	302.1						
Total liabilities & SE	92.5	89.3	118.5	207.2	319.7						

Source: Company data, ABN AMRO Morgans forecasts

RESEARCH TEAM

ROGER LEANING	-	Head of Research	SCOTT POWER	-	Senior Analyst
CHRIS BROWN	-	Senior Analyst	TOM SARTOR	-	Analyst
FIONA BUCHANAN	-	Senior Analyst	TAMARA STRETCH	-	Analyst
NICK HARRIS	-	Analyst	TANYA SOLOMON	-	Analyst
MICHAEL KNOX	-	Director of Strategy & Chief Economist	PAUL STEVENSON	-	Analyst
JAMES LAWRENCE	-	Fixed Interest Analyst	SAM TURNER	-	Analyst
JOSEPHINE LITTLE	-	Analyst	MARCEL VON PFYFFER	-	Associate Director - Strategy
BELINDA MOORE	-	Senior Analyst			

ABN AMRO MORGANS OFFICES

BRISBANE	(07) 3334 4888	COFFS HARBOUR	(02) 6651 5700
BUNDABERG	(07) 4153 1050	GOSFORD	(02) 4325 0884
BURLEIGH HEADS	(07) 5520 8788	HURSTVILLE	(02) 9570 5755
CAIRNS	(07) 4052 9222	MERIMBULA	(02) 6495 2869
CALOUNDRA	(07) 5491 5422	NEUTRAL BAY	(02) 8969 7500
CAPALABA	(07) 3245 5466	NEWCASTLE	(02) 4926 4044
CHERMSIDE	(07) 3350 9000	NEWPORT	(02) 9998 4200
EMERALD	(07) 4988 2777	ORANGE	(02) 6361 9166
GLADSTONE	(07) 4972 8000	PARRAMATTA	(02) 9615 4500
GOLD COAST	(07) 5592 5777	PORT MACQUARIE	(02) 6583 1735
IPSWICH	(07) 3202 3995	SCONE	(02) 6544 3144
MACKAY	(07) 4957 3033	WOLLONGONG	(02) 4227 3022
MILTON	(07) 3114 8600	MELBOURNE	(03) 9947 4111
NOOSA	(07) 5449 9511	BERWICK	(03) 9796 2676
REDCLIFFE	(07) 3897 3999	BRIGHTON	(03) 9519 3555
ROCKHAMPTON	(07) 4922 5855	CAMBERWELL	(03) 9813 2945
SPRING HILL	(07) 3833 9333	GEE LONG	(03) 5222 5128
SPRINGWOOD	(07) 3808 7588	MELBOURNE FARRER HOUSE	(03) 8644 5488
SUNSHINE COAST	(07) 5479 2757	TRARALGON	(03) 5176 6055
TOOWOOMBA	(07) 4639 1277	WARRNAMBOOL	(03) 5559 1500
TOWNSVILLE	(07) 4771 4577	CANBERRA	(02) 6232 4999
YEPPPOON	(07) 4939 3021	ADELAIDE	(08) 8464 5000
SYDNEY	(02) 8215 5000	PERTH	(08) 9261 0888
ARMIDALE	(02) 6770 3300	BUNBURY	(08) 9791 9188
BALLINA	(02) 6686 4144	DARWIN	(08) 8981 9555
BALMAIN	(02) 8755 3333	HOBART	(03) 6236 9000
CHATSWOOD	(02) 9411 8988		

DISCLAIMER - ABN AMRO MORGANS LTD

This report was prepared as a private communication to clients and was not intended for public circulation or publication or for the use of any third party, without the approval of ABN AMRO Morgans Ltd ("ABN AMRO Morgans"). While this report is based on information from sources which ABN AMRO Morgans considers reliable, its accuracy and completeness cannot be guaranteed. Any opinions expressed reflect ABN AMRO Morgans judgment at this date and are subject to change. ABN AMRO Morgans has no obligation to provide revised assessments in the event of changed circumstances. ABN AMRO Morgans, its directors and employees do not accept any liability for the results of any actions taken or not taken on the basis of information in this report, or for any negligent misstatements, errors or omissions. This report is made without consideration of any specific client's investment objectives, financial situation or needs. Those acting upon such information without first consulting one of ABN AMRO Morgans investment advisors do so entirely at their own risk. It is recommended that any persons who wish to act upon this report consult with an ABN AMRO Morgans investment advisor before doing so. This report does not constitute an offer or invitation to purchase any securities and should not be relied upon in connection with any contract or commitment whatsoever.

DISCLOSURE OF INTEREST

ABN AMRO Morgans and/or its affiliated companies may make markets in the securities discussed. Further, ABN AMRO Morgans and/or its affiliated companies and/or their employees from time to time may hold shares, options, rights and/or warrants on any issue included in this report and may, as principal or agent, sell such securities. ABN AMRO Morgans affiliates may have acted as manager or co-manager of a public offering of any such securities in the past three years. ABN AMRO Morgans affiliates may provide or have provided banking services or corporate finance to the companies referred to in the report. The knowledge of affiliates concerning such services may not be reflected in this report.

The Directors of ABN AMRO Morgans advise that they and persons associated with them may have an interest in the above securities and that they may earn brokerage, commissions, fees and other benefits and advantages, whether pecuniary or not and whether direct or indirect, in connection with the making of a recommendation or a dealing by a client in these securities, and which may reasonably be expected to be capable of having an influence in the making of any recommendation, and that some or all of our Proper Authority holders may be remunerated wholly or partly by way of commission.

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).

REGULATORY DISCLOSURES

Subject companies: BTA.AX.

PRIVACY

Personal information held by ABN AMRO Morgans Ltd may have been used to enable you to receive this publication. If you do not wish your personal information to be used for this purpose in the future please advise us, including your account details to your local ABN AMRO Morgans Ltd office or to Reply Paid 202, GPO Box 202 Brisbane Qld 4001.