

19 August 2009

Produced and issued by: ABN AMRO Morgans Limited

# Biota Holdings

## Building the business

### 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\$2.24

#### Price

A\$1.94

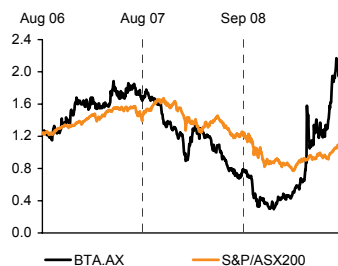
#### Short term (0-60 days)

n/a

BTA90819

### Price performance

	(1M)	(3M)	(12M)
Price (A\$)	1.55	1.13	0.68
Absolute (%)	25.2	71.7	185.3
Rel market (%)	14.3	46.4	224.6
Rel sector (%)	20.4	62.3	234.8



#### Market capitalisation

A\$331.74m (US\$274.40m)

#### Average (12M) daily turnover

A\$1.04m (US\$0.80m)

RIC: BTA.AX, BTA AU  
 Priced at close of business 18 Aug 2009.  
 Source: Bloomberg

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**BTA has posted results ahead of our expectations. Profit taking has seen the share price fall back below A\$2.00, so we are comfortable moving our recommendation back to Buy (from Hold).**

### Key forecasts

	FY08A	FY09A	FY10F	FY11F	FY12F
EBITDA (A\$m)	-9.78	44.30	114.7	163.8	35.20
Reported net profit (A\$m)	-6.49	38.20	88.60	112.9	28.80
Normalised net profit (A\$m) <sup>1</sup>	-6.49	38.20	88.60	112.9	28.80
Normalised EPS (c) <sup>1</sup>	-3.79	22.40	51.80	66.10	16.90
Normalised EPS growth (%)	n/a	n/a	131.8	27.50	-74.5
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)	n/m	8.68	3.74	2.94	11.50
EV/EBITDA (x)	n/m	5.53	1.59	0.44	0.79
Price/net oper. CF (x)	68.90	9.85	3.96	2.96	7.21
ROIC (%)	-93.4	869.1	736.4	682.3	123.3

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

year to Jun, fully diluted

### Result ahead of expectations; strong cash position of A\$86.7m

BTA posted NPAT of A\$38.2m for FY09, which was above our forecast of A\$35.1m. The differences were higher interest income of A\$1.1m and lower net clinical costs of A\$2m. BTA recently announced a A\$20m (about 11c) return of capital. The company finished the year with A\$86.7m in cash. Revenue of A\$60.5m was comprised of royalties of A\$45m received from GSK and A\$12.6m from collaboration income. We have made only modest changes to our forecasts to reflect the A\$20m return of capital; FY10 down 1.3% and FY11 down 0.8%.

### Outlook is positive

BTA plans to have two or three royalty-generating products over the medium term. We consider this plausible, with potential licensing opportunities from the current portfolio including: 1) laninamivir for ROW following recent success in Japan; and 2) expressions of interest after the company demonstrated proof-of-concept of its Human Rhinovirus (HRV) compound. In both programs we assume a licensing deal will be concluded in FY10. We value laninamivir at A\$0.90ps and the HRV program at A\$0.13ps.

### The next milestone to watch for is the release of GSK's quarterly result

The next milestone will be GSK's quarterly result, due 28 October 2009. We expect continued strong growth in Relenza royalties. We forecast royalties of A\$133m for FY10 (up 195% on pcp), which will be driven by major government orders, particularly from the UK and the US. Timing is difficult to predict, although we would not be surprised if an announcement was made by the various government bodies, presenting a near-term catalyst.

### Investment view – move back to Buy

Our DCF valuation remains unchanged at A\$2.24 and we set our target price at the same level. With 15% upside to our target price we upgrade to Buy (from Hold). The downside risk to our target price is delays in GSK scaling up production.

**BTA – financial summary**

Year to 30 Jun (A\$m)	AIFRS	AIFRS	AIFRS	AIFRS	AIFRS	Closing price (A\$)	1.940	Price target (A\$)	2.24		
<b>Income statement</b>	<b>2008A</b>	<b>2009A</b>	<b>2010F</b>	<b>2011F</b>	<b>2012F</b>	<b>Valuation metrics</b>					
Divisional sales	41.7	80.4	148.8	188.5	43.0	Preferred methodology	DCF	Val'n (A\$)	\$ 2.24		
Total revenue	41.7	80.4	148.8	188.5	43.0	<b>DCF valuation inputs</b>					
<b>EBITDA</b>	<b>-9.8</b>	<b>44.3</b>	<b>114.7</b>	<b>163.8</b>	<b>35.2</b>	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	-2.7	-5.4	-6.0	-5.4	-1.7	Beta	1.60	Kd	7.25%		
EBITA	-12.5	38.9	108.6	158.4	33.4	CAPM (Rf+Beta(Rm-Rf))	14.8%	Ke	14.8%		
Amortisation/impairment	0.0	0.0	0.0	0.0	0.0	Equity (E/EV)	100.0%	NPV cash flow (A\$m)	233.6		
EBIT	-12.5	38.9	108.6	158.4	33.4	Debt (D/EV)	0.0%	Minority interest (A\$m)	0.0		
EBIT (incl associate profit)	-12.5	38.9	108.6	158.4	33.4	Interest rate	7.25%	Net debt (A\$m)	-149.4		
Net interest expense	3.2	2.9	2.6	4.5	7.8	Tax rate (t)	30.0%	Investments (A\$m)	0.0		
Pre-tax profit	-9.3	41.9	111.2	162.9	41.2	Franking credit	100.0%	Equity market value (A\$m)	383.0		
Income tax expense	2.8	-3.6	-22.6	-50.0	-12.4	<b>WACC</b>	14.8%	Diluted no. of shares (m)	171.0		
After-tax profit	-6.5	38.2	88.6	112.9	28.8			<b>DCF valuation (A\$)</b>	<b>2.24</b>		
Minority interests						<b>Multiples</b>		<b>2009A</b>	<b>2010F</b>	<b>2011F</b>	<b>2012F</b>
<b>NPAT</b>	<b>-6.5</b>	<b>38.2</b>	<b>88.6</b>	<b>112.9</b>	<b>28.8</b>	Enterprise value (A\$m)	245.0	182.4	72.1	27.9	
Significant items	0.0	0.0	0.0	0.0	0.0	EV/Sales (x)	3.0	1.2	0.4	0.6	
NPAT post abnormal	-6.5	38.2	88.6	112.9	28.8	EV/EBITDA (x)	5.5	1.6	0.4	0.8	
						EV/EBIT (x)	6.3	1.7	0.5	0.8	
<b>Cash flow statement</b>	<b>2008A</b>	<b>2009A</b>	<b>2010F</b>	<b>2011F</b>	<b>2012F</b>	PE (pre-goodwill) (x)	8.7	3.7	2.9	11.5	
EBITDA	-9.8	44.3	114.7	163.8	35.2						
Change in working capital	8.6	-9.9	-10.8	-6.3	15.4	<b>At target price</b>		<b>2009A</b>	<b>2010F</b>	<b>2011F</b>	<b>2012F</b>
Net interest (pd)/rec	3.2	2.9	2.6	4.5	7.8	EV/EBITDA (x)	6.7	2.0	0.8	2.3	
Taxes paid	2.8	-3.6	-22.6	-50.0	-12.4	PE (pre-goodwill) (x)	10.0	4.3	3.4	13.3	
Other oper cash items	0.0	0.0	0.0	0.0	0.0						
Cash flow from ops (1)	4.8	33.7	83.9	112.0	46.0	<b>Comparable company data (x)</b>		<b>2010F</b>	<b>2011F</b>	<b>2012F</b>	
Capex (2)	-3.8	-0.8	-1.2	-1.8	-1.7	Avexa	EV/EBITDA	0.4	-0.6	-0.8	
Disposals/(acquisitions)	0.0	0.0	0.0	0.0	0.0	Year to 30 Jun	EV/EBIT	0.4	-0.6	-0.8	
Other investing cash flow	0.0	0.0	0.0	0.0	0.0		PE	3.0	3.2	1.6	
Cash flow from invest (3)	-3.8	-0.8	-1.2	-1.8	-1.7	Pharmaxis	EV/EBITDA	-10.4	-12.0	76.4	
Incr/(decr) in equity	-3.0	-5.1	-20.0	0.0	0.0	Year to 30 Jun	EV/EBIT	-9.7	-11.2	152.1	
Incr/(decr) in debt	0.0	0.0	0.0	0.0	0.0		PE	-12.2	-12.4	131.1	
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	<b>Per share data</b>		<b>2009A</b>	<b>2010F</b>	<b>2011F</b>	<b>2012F</b>
Other financing cash flow	0.0	0.0	0.0	0.0	0.0	No. shares	171.0	171.0	171.0	171.0	
Cash flow from fin (5)	-3.0	-5.1	-20.0	0.0	0.0	EPS (cps)	22.4	51.8	66.1	16.9	
Forex and disc ops (6)	0.0	0.0	0.0	0.0	0.0	EPS (normalised) (c)	22.4	51.8	66.1	16.9	
Incr/(decr) cash (1+3+5+6)	-2.0	27.8	62.7	110.2	44.3	Dividend per share (c)	0.0	0.0	0.0	0.0	
<b>Equity FCF (1+2+4)</b>	<b>1.0</b>	<b>32.9</b>	<b>82.7</b>	<b>110.2</b>	<b>44.3</b>	Dividend payout ratio (%)	0.0	0.0	0.0	0.0	
						Dividend yield (%)	0.0	0.0	0.0	0.0	
<b>Balance sheet</b>	<b>2008A</b>	<b>2009A</b>	<b>2010F</b>	<b>2011F</b>	<b>2012F</b>	<b>Growth ratios</b>		<b>2009A</b>	<b>2010F</b>	<b>2011F</b>	<b>2012F</b>
Cash & deposits	60.2	86.7	149.4	259.6	303.9	Sales growth	92.6%	85.1%	26.7%	-77.2%	
Trade debtors	4.3	8.1	18.3	23.2	5.3	Operating cost growth	-30.0%	-5.3%	-27.8%	-68.2%	
Inventory	0.0	0.0	0.0	0.0	0.0	EBITDA growth				-78.5%	
Investments	0.0	0.0	0.0	0.0	0.0	EBITA growth				-78.9%	
Goodwill						<b>Operating performance</b>		<b>2009A</b>	<b>2010F</b>	<b>2011F</b>	<b>2012F</b>
Other intangible assets	12.1	8.4	4.2	0.5	0.5	Asset turnover (%)	20.0	25.5	20.0	3.5	
Fixed assets	7.5	6.9	6.3	6.4	6.4	EBITDA margin (%)	55.2	77.1	86.9	81.8	
Other assets	5.2	1.5	1.5	1.5	1.5	EBIT margin (%)	48.4	73.0	84.1	77.7	
<b>Total assets</b>	<b>89.3</b>	<b>111.6</b>	<b>179.7</b>	<b>291.3</b>	<b>317.6</b>	Net profit margin (%)	47.6	59.6	59.9	67.1	
Short-term borrowings	0.0	0.0	0.0	0.0	0.0	Return on net assets (%)	40.1	65.6	56.9	10.9	
Trade payables	12.0	5.6	5.1	3.7	1.2	Net debt (A\$m)	-86.7	-149.4	-259.6	-303.9	
Long-term borrowings	0.0	0.0	0.0	0.0	0.0	Net debt/equity (%)	-89.4	-90.2	-93.2	-98.8	
Provisions	0.0	0.0	0.0	0.0	0.0	Net interest/EBIT cover (x)	-13.3	-41.8	-35.4	-4.3	
Other liabilities	13.9	9.0	9.0	9.0	9.0	ROIC (%)	869.1	736.4	682.3	123.3	
<b>Total liabilities</b>	<b>26.0</b>	<b>14.6</b>	<b>14.1</b>	<b>12.7</b>	<b>10.1</b>	<b>Internal liquidity</b>		<b>2009A</b>	<b>2010F</b>	<b>2011F</b>	<b>2012F</b>
Share capital	159.1	154.6	223.2	336.1	365.0	Current ratio (x)	6.5	11.9	22.3	30.5	
Other reserves	1.4	1.5	1.5	1.5	1.5	Receivables turnover (x)	13.0	11.3	9.1	3.0	
Retained earnings	-97.3	-59.1	-59.1	-59.1	-59.1	Payables turnover (x)	4.1	6.3	5.6	3.2	
Other equity	0.0	0.0	0.0	0.0	0.0						
Total equity	63.3	97.0	165.6	278.6	307.4						
Minority interest											
Total shareholders' equity	63.3	97.0	165.6	278.6	307.4						
<b>Total liabilities &amp; SE</b>	<b>89.3</b>	<b>111.6</b>	<b>179.7</b>	<b>291.3</b>	<b>317.6</b>						

Share price at 18 August 2009.  
Source: Company data, ABN AMRO Morgans forecasts

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