

# Biota Holdings

## Downgrade to SELL



Wilson HTM  
INVESTMENT GROUP

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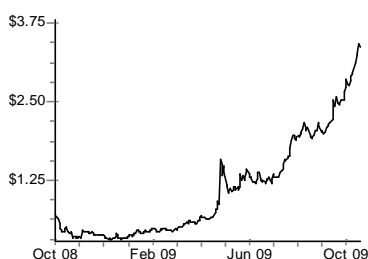
\$3.43

SELL

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### Price Performance



### Security/Capital Details

ASX Code	BTA
Market Cap	\$604 M
Issued Shares	174.9 M
Avg Mth T'over	7.96 M
12 Mth High – Low	\$3.41 - \$0.30

### Key Data/Ratios – FY 2010

EBITDA / Sales	66.4%
EBIT / Sales	63.6%
Net Debt / Equity	n/a
Interest Cover	n/a
ROE	47.0%
EPS Growth	170.8%
PEG Ratio	x
NTA / Share	\$ 0.70
DCF	\$ 1.93
12 Mth Price Target	\$ 2.28

BUY: Total return +10% or more over a 12 month period

HOLD: Total return expected to be between +10% to -10% over a 12-month period

SELL: Total return expected to be -10% or more over a 12 month period

TOTAL RETURN OR TSR = capital growth in share price + expected dividend yield in that period

### Recommendation

The market is pricing Biota on upside risks ahead of GSK's Q3-2009 result, which will be reported on 28<sup>th</sup> October. The prevailing share price of \$3.43 per share would seemingly discount GSK selling approximately GBP 850-1,000M worth of Relenza per year, every year until patent expiry, at the end of 2014. This is too heroic an assumption at this price, in our view, without better information from GSK about the extent of its Relenza contracts, particularly those with the USA. Biota is trading on 10.1X FY10e EPS but on 16.7X 2012e EPS. FY10 will be an impressive year, but we have seen nothing to convince us that GSK will sell 400-450M courses of Relenza over the next 5 years. We maintain a target of \$2.28 per share but downgrade from HOLD to SELL.

### Key Points

- The only way we can get our Biota valuation to say \$3.43 per share is to 'plug in' \$115M Relenza royalties for all years FY10-14 inclusive and to recognise half that amount for FY15. The last of Biota's patent rights (at least those listed in FDA's Orange Book) expires in December 2014.
- If one assumes a unit price of A\$20 per course, that royalty level implies GSK sales volumes of c.85M courses of Relenza per year, depending on AUDGBP assumptions. Roughly speaking, the market's expectations could be met from GSK's proposed Diskhaler manufacturing capacity (90M courses per year) with no contribution from the planned Rotahaler format (100M courses). Rotahaler Relenza is not approved for marketing in the US at this time.
- Expressed another way, the market is expecting GSK will sell 400-450M courses of Relenza over the next 5 years. GSK sold 25M courses of Relenza in FY09 and has likely sold less than 100M courses of Relenza over the decade since its launch. We point this out to put current market expectations into context.
- Upside risk to stockpile demand is driving the share price. Speculation about the US Department of Health and Human Services' intentions to rebalance the US stockpile to 50% Relenza has been with us for some time now, but has not yet precipitated an order large enough to be disclosed. If the US does rebalance its stockpile to 50% Relenza, and acquires fresh stock to replace the drug dispensed during the H1N1 pandemic, those orders could be for ~25-40M courses.
- Our Relenza forecasts are unchanged. We are forecasting Relenza royalty receipts of \$108M in FY10, \$76M in FY11 & FY12. Broadly speaking, we see stockpile demand settling to 65-75M courses per annum. GSK is still ignoring the retail channel for Relenza. The most recent IMS Health data reports ~10-15 thousand US Relenza prescriptions, monthly.
- Relenza is a wasting asset by virtue of its fixed patent life, but is a potent driver of sentiment towards Biota and that is what is happening now. We are reminded of February 2004 when avian flu was in fashion. We have seen nothing yet to convince us that GSK can affect a Relenza turnaround on the scale the market is anticipating. Relenza makes up approximately 50% of our valuation.
- Biota is trading on 10.1 FY10e EPS but on 16.7X 2012e EPS. We maintain a target of \$2.28 per share but downgrade our recommendation from HOLD to SELL.

Year to June	NPAT (Rep) \$M	EPS (Norm) c	EPS Growth %	PER x	P/CF x	EV/EBITDA x	DPS c	Div Yld %	Franking %
2009a	38.2	12.6	575.4	15.3	10.4	10.5	0.0	0.0	0
2010e	57.9	34.0	170.8	10.1	7.8	6.7	0.0	0.0	0
2011e	53.8	31.6	-7.0	10.9	9.0	6.7	0.0	0.0	0
2012e	34.3	20.5	-35.1	16.7	20.9	9.6	0.0	0.0	0

## Biota Holdings (BTA : \$3.43)

### INVESTMENT FUNDAMENTALS

Yr Ending June	2008A	2009A	2010E	2011E	2012E
EPS Reported (c)	-3.7	21.7	32.9	30.5	19.5
<b>EPS Normalised (c)</b>	<b>-2.6</b>	<b>12.6</b>	<b>34.0</b>	<b>31.6</b>	<b>20.5</b>
EPS Growth (%)	N/A	575.4%	170.8%	-7.0%	-35.1%
<b>PER Normalised (x)</b>	<b>-29.2</b>	<b>15.3</b>	<b>10.1</b>	<b>10.9</b>	<b>16.7</b>
DPS (c)	0.0	0.0	0.0	0.0	0.0
Payout (%)	<b>0.0%</b>	<b>0.0%</b>	<b>0.0%</b>	<b>0.0%</b>	<b>0.0%</b>
Yield (%)	0.0%	0.0%	0.0%	0.0%	0.0%
Franking (%)	0%	0%	0%	0%	0%

### VALUATION DATA

Yr Ending June	2008A	2009A	2010E	2011E	2012E
EV / EBITA (x)	-8.0	11.1	6.8	6.8	9.7
EV / EBITDA (x)	-8.8	10.5	6.7	6.7	9.6
CFPS (c)	2.7	18.4	44.2	38.2	16.4
<b>Price / CF</b>	<b>28.4</b>	<b>10.4</b>	<b>7.8</b>	<b>9.0</b>	<b>20.9</b>
Book Value / Share (\$)	0.4	0.6	0.8	1.0	1.2
<b>Price / Book (x)</b>	<b>2.2</b>	<b>3.5</b>	<b>4.0</b>	<b>3.3</b>	<b>2.8</b>

### PROFIT & LOSS (\$m)

Yr Ending June	2008A	2009A	2010E	2011E	2012E
Sales Revenue	20.5	45.0	108.7	76.3	76.2
EBITDA	-9.4	24.0	72.2	70.2	46.4
Depreciation	0.9	1.2	1.0	1.0	0.6
<b>EBITA</b>	<b>-10.3</b>	<b>22.8</b>	<b>71.2</b>	<b>69.2</b>	<b>45.8</b>
Amortisation	1.8	3.9	2.0	1.9	1.9
<b>EBIT</b>	<b>-12.1</b>	<b>18.9</b>	<b>69.2</b>	<b>67.3</b>	<b>43.9</b>
Net Interest Expense	-2.8	-2.9	-3.2	-4.0	-5.1
<b>Pre-tax Profit</b>	<b>-9.3</b>	<b>21.8</b>	<b>72.4</b>	<b>71.3</b>	<b>49.0</b>
Tax	-2.8	3.6	14.5	17.5	14.7
Tax rate (%)	30.3%	16.7%	20.0%	24.5%	30.0%
Minorities / pref divs	0.0	0.0	0.0	0.0	0.0
Accounted NPAT	0.0	0.0	0.0	0.0	0.0
<b>Net Profit</b>	<b>-6.5</b>	<b>18.2</b>	<b>57.9</b>	<b>53.8</b>	<b>34.3</b>
Abn's / Extraord's	0.0	20.0	0.0	0.0	0.0
Reported Net Profit	-6.5	38.2	57.9	53.8	34.3
Revenue Growth (%)	N/A	119.0%	141.5%	-29.8%	-0.1%
EBIT Growth (%)	N/A	256.2%	266.3%	-2.7%	-34.7%
NPAT Growth (%)	N/A	380.2%	218.5%	-7.1%	-36.3%

### PROFITABILITY RATIOS

Yr Ending June	2008A	2009A	2010E	2011E	2012E
<b>EBIT / Sales (%)</b>	<b>-58.8%</b>	<b>42.0%</b>	<b>63.6%</b>	<b>88.2%</b>	<b>57.6%</b>
ROA (%)	N/A	69.9%	191.3%	104.8%	54.2%
<b>ROE (%)</b>	<b>N/A</b>	<b>22.7%</b>	<b>47.0%</b>	<b>32.4%</b>	<b>17.1%</b>
ROFE (%)	N/A	338.4%	385.5%	180.4%	84.7%

### INTERIMS (\$m)

Half Yr	Dec 08	Jun 09	Dec 09	Jun 10	Dec 10
Yr Ending June	1H A	2H A	1H E	2H E	1H E
Sales Revenue	3.8	41.2	62.8	45.8	46.1
EBIT	-11.8	30.7	46.4	22.7	49.9
<b>Net Profit</b>	<b>-12.8</b>	<b>51.0</b>	<b>38.5</b>	<b>19.4</b>	<b>40.6</b>
EBIT / Sales (%)	-309.2%	74.5%	73.9%	49.5%	108.3%

### BALANCE SHEET (\$m)

Yr Ending June	2008A	2009A	2010E	2011E	2012E
Cash	<b>60.2</b>	<b>86.7</b>	<b>122.8</b>	<b>133.1</b>	<b>159.7</b>
Receivables	4.3	8.1	5.2	7.9	11.5
Inventories	0.0	0.0	0.0	0.0	0.0
Other	0.0	0.0	0.0	0.0	0.0
<b>Current Assets</b>	<b>64.4</b>	<b>94.8</b>	<b>128.0</b>	<b>141.0</b>	<b>171.2</b>
Net PPE	7.5	6.9	7.8	8.8	10.5
Investments	0.0	0.0	0.0	0.0	0.0
Intangibles	12.1	8.4	26.4	59.5	57.6
Other	5.2	1.5	8.0	4.9	1.0
<b>Non-current Assets</b>	<b>24.8</b>	<b>16.9</b>	<b>42.2</b>	<b>73.2</b>	<b>69.1</b>
<b>Total Assets</b>	<b>89.3</b>	<b>111.6</b>	<b>170.2</b>	<b>214.2</b>	<b>240.3</b>
Current Payables	12.0	5.6	14.0	15.0	15.0
Current Debt	0.0	0.0	0.0	0.0	0.0
Non-Current Debt	0.0	0.0	0.0	0.0	0.0
Provisions	1.3	1.6	2.8	0.7	3.5
Other	12.7	7.4	4.0	15.3	4.3
<b>Total Liabilities</b>	<b>26.0</b>	<b>14.6</b>	<b>20.8</b>	<b>31.0</b>	<b>22.8</b>
Equity	159.1	154.6	134.5	114.5	114.5
Reserves	1.4	1.5	6.5	6.5	6.5
Retained Profits	-97.3	-59.1	8.5	62.3	96.5
Minorities	0.0	0.0	0.0	0.0	0.0
<b>Total Equity</b>	<b>63.3</b>	<b>97.0</b>	<b>149.4</b>	<b>183.2</b>	<b>217.5</b>
<b>Total Funds Employed</b>	<b>3.1</b>	<b>10.3</b>	<b>26.6</b>	<b>50.1</b>	<b>57.8</b>

### LIQUIDITY & LEVERAGE RATIOS

Yr Ending June	2008A	2009A	2010E	2011E	2012E
Net Debt (Cash) (\$m)	-60.2	-86.7	-122.8	-133.1	-159.7
<b>Net Debt / Equity (%)</b>	<b>-95.0%</b>	<b>-89.4%</b>	<b>-82.2%</b>	<b>-72.7%</b>	<b>-73.4%</b>
Interest Cover (x)	4.3	-6.4	-21.5	-16.6	-8.7
<b>Debt / CashFlow (x)</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>

### CASHFLOW (\$m)

Yr Ending June	2008A	2009A	2010E	2011E	2012E
EBIT	-12.1	18.9	69.2	67.3	43.9
Dep'n and Amort'n	2.7	5.1	3.0	2.9	2.5
Net Int Rec'd (Paid)	2.8	2.8	3.2	4.0	5.1
Tax Paid	0.0	0.0	0.0	-17.5	-14.7
Dec / (Inc) W'kg Cap	9.7	-11.3	11.2	-1.7	-3.7
Other	1.4	17.0	-8.7	12.3	-4.3
<b>Operating Cash Flow</b>	<b>4.8</b>	<b>32.5</b>	<b>78.0</b>	<b>67.3</b>	<b>28.9</b>
Capital Expenditure	-3.8	-0.8	-1.9	-2.0	-2.3
Asset Sales	0.0	0.0	0.0	0.0	0.0
Investments	0.0	0.0	0.0	0.0	0.0
Other Inv. Flows	0.0	0.0	0.0	0.0	0.0
<b>Investing Cash Flow</b>	<b>-3.8</b>	<b>-0.8</b>	<b>-1.9</b>	<b>-2.0</b>	<b>-2.3</b>
Equity Raised	0.0	0.0	0.0	0.0	0.0
Inc / (Dec) in Loans	0.0	0.0	0.0	0.0	0.0
Dividends Paid	0.0	0.0	0.0	0.0	0.0
Other Fin. Flows	-3.0	-5.1	-20.0	0.0	0.0
<b>Financing Cash Flow</b>	<b>-3.0</b>	<b>-5.1</b>	<b>-20.0</b>	<b>0.0</b>	<b>0.0</b>
<b>Net Cash Flow</b>	<b>-2.0</b>	<b>26.5</b>	<b>56.1</b>	<b>65.3</b>	<b>26.6</b>

*Disclosure of Interest. The Directors of Wilson HTM Ltd advise that at the date of this report they and their associates have relevant interests in 111,000 securities in Biota Holdings. They also advise that Wilson HTM Ltd and Wilson HTM Corporate Finance Ltd A.B.N. 65 057 547 323 and their associates have received and may receive commissions or fees from Biota Holdings in relation to advice or dealings in securities. Some or all of Wilson HTM Ltd authorised representatives may be remunerated wholly or partly by way of commission.*



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