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Biota Holdings Limited (BTA)

Market Perform

Indicative 1Q10 Relenza Royalties of \$24.1m

\$2.98

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Key Points

GSK has reported quarterly Relenza™ sales of £182m with US, European and ROW sales of £45m, £38m, and £99m, respectively.

Biota reported indicative royalties of A\$24m for the 1Q10, up 1147% on pcp and represents the second biggest quarter in history.

GSK Diskhaler capacity close to 90m courses p/a run rate, slightly ahead of 2Q CY09 guidance, and up significantly from the 60m p/a previously.

Summary

Market capitalisation (M)	\$521.3
Share price	\$2.98
Shares on issue (M)	174.9
52 week low	\$0.29
52 week high	\$3.47
Ave Monthly Vol (M)	20.5
Valuation Per Share/PT	\$2.74
Cash (M) as at 30/6/09	\$86.7

Our View

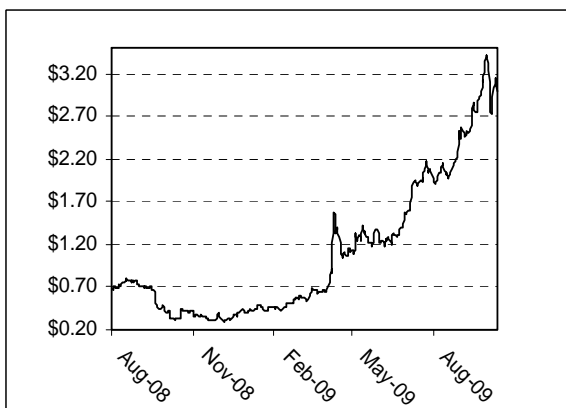
- Relenza Situation** – On our estimates, 1Q10 sales volumes were 13.2m, suggesting additional headroom for higher sales recognition in 2Q10, as the likely quarterly production run rate was probably closer to 18m courses. We estimate volumes sold since Jan 1st of 37m courses. Assuming a full capacity production run in the current Q, we anticipate a stronger 2Q10 and 2H10.
- 2H10 Relenza Royalties Likely to Be Higher** – We have upped our 1H10 royalties by 39.2% to \$62.1m, though this represents a timing benefit in our view from 2H estimates into the 1H given capacity guidance and a strong desire of governments to build stockpiles prior to a second wave of infections into Winter. From a cash collection perspective (ex potential FX impact), slippage of royalties from 1H10 into 3Q10 is minimal. Our FY10 forecasts for Relenza remain unchanged at \$134.5m (on volumes of 76.9m). We continue to note the US HHS intention to move Relenza to 50% of the national antiviral stockpile subject to availability. Although GSK commented the Rotahaler format may be offered to lower priced markets, we believe the HHS will secure Relenza in the Diskhaler and/or Rotahaler format (annual capacity of 100m from CY10), which the FDA is likely to approve for emergency stockpiling only during the current Q.
- LANI License Deal Expectations Upgraded to US\$200m** – A recent investor conference provided some insight to Biota's licensing strategy. We continue to view LANI as a Phase 2 ROW license opportunity (Phase 1 in the UK, Phase 3 completed in Japan), irrespective of the solid Japanese Phase 3 data. While we see Caucasian population risk of differential drug effects as low for LANI, prospective partners are likely to argue this case, coupled with the significant Phase 2/3 costs for ROW. Given the sizeable activity in influenza globally, we have upgraded our license expectations by US\$75m to US\$200m, back-ended to launch/sales style milestones. We value the LANI program at \$1.18 per share. We believe any substantial increase in the Tamiflu resistance profile for swine H1N1 will improve terms for a license deal for Biota and future royalties owing to a greater expectation of market share.
- Outlook** – We have made no major changes to our FY10-FY12 NPAT forecasts. We maintain our FY10 NPAT estimate of \$89.0m. As a result of enhanced expectations of the LANI licence structure, we have upgraded our valuation/PT by 9cps to \$2.74. We note the stock may continue to trade above our valuation fundamentals in light of the unfolding second wave of H1N1 infections in the northern hemisphere, coupled with any evidence of increasing Tamiflu resistance and additional government orders. Given the unpredictability of the evolving situation, and the stock trading at a premium to our revised valuation/PT, we maintain our Market Perform recommendation.

Key Financials (A\$'000)

Year End	FY09 Actual	FY10 Est.	FY11 Est.
Relenza Royalties	45,000	134,522	54,417
Partnering Income*	4,426	7,467	10,667
Total Revenue	63,334	149,801	71,354
Total Op. Expenses	(15,810)	(15,772)	(12,217)
R&D Expenses	(13,348)	(17,950)	(13,403)
EBITDA	43,997	113,592	40,889
Normalised NPAT	20,343	89,039	28,704
Adj. NPAT	38,181	89,039	28,704
Adj. EPS (c)	21.7	50.9	16.4
Adj. PE Ratio (x)	13.8	5.9	18.2

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

Share Price Graph (A\$)



Biota Holdings Limited - Summary of Forecasts

BTA \$2.98

PROFIT & LOSS SUMMARY (A\$'000)

Period	FY08A	FY09A	FY10E	FY11E	FY12E
Relenza Royalties	20,544	45,000	134,522	54,417	55,333
Partnering (Licence) Income	5,871	4,426	7,467	10,667	12,000
Research income (inc Grants)	15,042	10,966	5,300	700	700
Total Revenue	44,989	63,334	149,801	71,354	82,356
<i>Growth (pcp)</i>	-21.5%	40.8%	136.5%	-52.4%	15.4%
Net Gain on GSK Settlement	0	12,756	0	0	0
Net Operating Revenue	3,592	60,280	134,029	59,137	69,819
R&D Expenses	(10,287)	(13,348)	(17,950)	(13,403)	(13,688)
EBITDA	(9,897)	43,997	113,592	40,889	49,838
Depreciation	(933)	(1,184)	(1,108)	(1,463)	(1,471)
Amortisation	(1,681)	(3,931)	(4,750)	(3,265)	(387)
EBIT	(12,511)	38,882	107,734	36,160	47,980
Net Interest	3,202	2,935	2,488	4,845	6,293
Pre-Tax Profit	(9,309)	41,817	110,222	41,006	54,273
Tax Expense	2,820	(3,636)	(21,183)	(12,302)	(16,282)
Minorities	0	0	0	0	0
NPAT Normalised *	8,761	20,343	89,039	28,704	37,991
NPAT Adj.	(6,489)	38,181	89,039	28,704	37,991
<i>Growth (pcp)</i>	n/a	n/a	133.2%	-67.8%	32.4%
Net Adjustments	0	0	0	0	0
Reported Profit	(6,489)	38,181	89,039	28,704	37,991

PER SHARE DATA

Period	FY08A	FY09A	FY10E	FY11E	FY12E
Adjusted EPS (c)	(3.5)	21.7	50.9	16.4	21.7
<i>Growth (pcp)</i>	n/a	n/a	134.9%	-67.8%	32.4%
Reported EPS (c)	(3.5)	21.7	50.9	16.4	21.7
<i>Growth (pcp)</i>	n/a	n/a	134.9%	-67.8%	32.4%
Dividend (c)	0.0	0.0	0.0	0.0	0.0
Franking	0%	0%	0%	0%	0%
Gross CF per Share (c)	2.6	18.4	48.5	20.6	24.2
NTA per share (c)	28.0	50.3	92.8	111.1	133.0

VALUATION MULTIPLES

Period	FY08A	FY09A	FY10E	FY11E	FY12E
Adjusted PE Ratio (x)	n/a	13.8	5.9	18.2	13.7
PE Ratio (x)	n/a	13.8	5.9	18.2	13.7
Dividend Yield (%)	n/a	0.0%	0.0%	0.0%	0.0%
EV/EBITDA (x)	n/a	9.9	3.3	8.2	5.9
EV/EBIT (x)	n/a	11.2	3.4	9.3	6.2

CAPITAL RAISING ASSUMPTIONS

Period	FY08A	FY09A	FY10E	FY11E	FY12E
Shares Issued (m)	0.0	0.0	0.0	0.0	0.0
Issue Price (A\$)	0.0	0.0	0.0	0.0	0.0
Cash Raised (A\$m)	0.0	0.0	0.0	0.0	0.0

KEY RATIOS

Period	FY08A	FY09A	FY10E	FY11E	FY12E
EBITDA/Sales Margin %	-22.0%	69.5%	75.8%	57.3%	60.5%
EBIT/Sales Margin %	-27.8%	61.4%	71.9%	50.7%	58.3%
Current ratio (x)	3.4	7.6	14.7	15.8	17.2
Net Debt : Equity (%)	-94.8%	-89.4%	-90.4%	-94.8%	-96.9%
ROE (%)	-9.6%	47.6%	67.7%	15.9%	17.8%
Dividend Payout Ratio (%)	n/a	0.0%	0.0%	0.0%	0.0%

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

BALANCE SHEET SUMMARY (A\$'000)

Period	FY08A	FY09A	FY10E	FY11E	FY12E
Cash	60,164	86,704	150,101	184,646	225,461
Receivables	4,270	8,067	14,980	13,557	12,353
Inventories	0	0	0	0	0
Other	0	0	0	0	0
Total Current Assets	64,434	94,771	165,081	198,203	237,815
Inventories	0	0	0	0	0
Property Plant & Equip	7,543	6,924	7,316	7,353	7,382
Intangibles	12,113	8,402	3,652	387	0
Other	5,168	1,532	1,532	1,532	1,532
Total Non-Current Assets	24,824	16,858	12,501	9,272	8,914
TOTAL ASSETS	89,258	111,629	177,582	207,475	246,729
Accounts Payable	12,023	5,631	5,992	7,135	8,236
Borrowings	0	0	0	0	0
Provisions	1,122	1,561	1,122	1,330	1,473
Other	6,059	5,262	4,102	4,102	4,102
Total Current Liab	19,204	12,454	11,216	12,567	13,810
Borrowings	132	0	0	0	0
Provisions	6,622	2,143	295	133	152
Other	0	0	0	0	0
Total Non-Current Liab	6,754	2,143	295	133	152
TOTAL LIABILITIES	25,958	14,597	11,511	12,700	13,963
TOTAL EQUITY	63,300	97,032	166,071	194,775	232,766

CASH FLOW SUMMARY (A\$'000)

Period	FY08A	FY09A	FY10E	FY11E	FY12E
EBIT (excl Abs/Extr)	(12,511)	38,882	107,734	36,160	47,980
Add: Depreciation	933	1,184	1,108	1,463	1,471
Amortisation	1,681	3,931	4,750	3,265	387
Change in Pay.	6,019	(6,392)	361	1,143	1,100
Less: Tax paid	2,820	0	(21,183)	(12,302)	(16,282)
Net Interest	3,202	2,935	2,488	4,845	6,293
Change in Rec.	5,080	(3,797)	(6,913)	1,423	1,204
Other	(4,090)	(8,191)	(8,197)	(3,219)	(225)
Gross Cashflows	4,815	32,483	84,897	36,045	42,315
Capex	(3,785)	(798)	(1,500)	(1,500)	(1,500)
Free Cashflows	1,030	31,685	83,397	34,545	40,815
Buy-Back/Cap. Return**	(3,022)	(5,145)	(20,000)	0	0
Net Cash Flow	(1,992)	26,540	63,397	34,545	40,815

** 5% buy back, ending 7th Oct 2008; \$20m capital return est. in Nov 09

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