Biota Holdings

GSK Q3-2009: Relenza royalty $24.1M

29 October 2009

$2.98

SELL

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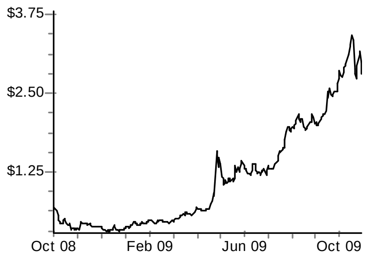
Price Performance



Security/Capital Details

ASX Code	BTA
Market Cap	$484.6 M
Issued Shares	176.2 M
Avg Mth T'over	7.96 M
12 Mth High – Low	$3.41 - $0.30

Key Data/Ratios – FY 2010

EBITDA / Sales	66.7%
EBIT / Sales	64.0%
Net Debt / Equity	-82.3%
Interest Cover	n/a
ROE	47.4%
EPS Growth	174.5%
PEG Ratio	x
NTA / Share	$ 0.70
DCF	$ 1.93
12 Mth Price Target	$ 2.42

Recommendation

GSK reported Q3 Relenza sales of GBP 182M, which was below our estimate of GBP 219M. There was no substantive update in GSK's webcast commentary, other than to say that the manufacturing scale-up was slightly ahead of previous guidance. Recall that this Q3 result contains the post-Apr-09 sales that missed the cut for Q2 reporting. Biota's indicative royalty for Q1FY10 was $24.1M and our full year estimates are not materially changed from last time. The next Relenza data point (GSK Q4) is in Feb-10, so the news catalyst outlook for the remainder of the year looks relatively quiet. We expect LANI to be partnered mid-2010 and HRV in Q4-10. Our target is upgraded to $2.42 per share but we maintain the SELL recommendation on a valuation basis.

Key Points

- GSK reported Q3 Relenza sales of GBP 182M, which was below our estimate of GBP 219M. The indicative royalty to Biota is estimated at $24.1M. GSK management provided no substantive update on Relenza, other than to say that the 90M Diskhaler capacity is in place, which is consistent with their previous guidance. The number of contracted countries remains "above 60", which has been in our numbers for some months.
- The Rotahaler presentation is also said to be coming on line, with that product likely to be pushed into GSK's emerging market channels at a lower price point. US approval for the Rotahaler is still to come – but we risk that heavily at the moment because FDA's current stance on approving drug-device combinations is particularly stringent. Rotahaler approval represents upside risk.
- The Q3 result contained post-April pandemic orders that missed the cut for GSK's Q2 reporting and on that basis, was lower than most expectations in the market. We have made minor adjustments to our FY10 Relenza royalty forecasts which total $109M, and do include the US Department of Health and Human Services' stockpile rebalancing orders, which are staged. Next Relenza data point is in Feb-10 with the GSK Q42009 release.
- Our SOTP valuation of BTA, in 12 month target terms, currently comprises:

Valuation Data	12m Target (cps)
Cash	74
Relenza royalties	117
RSV	-
HCV - Boehringer Ingelheim	14
LANI	93
HRV	9
NPV R&D costs	(65)
Σ Parts Valuation	242

- Our LANI valuation is approaching that of our Relenza valuation – and that's how we see this market developing. LANI looks to be a superior product in all settings. Valuation-wise, its commercial life (ex-Japan) is further away and still carries some residual clinical and commercial risks which must be contemplated.
- Our valuation is upgraded to $2.42 per share – on account of some non-material LANI model adjustments. We maintain our SELL recommendation at these levels, predominantly on a valuation basis.

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

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	58.7	34.5	174.5	7.6	6.2	5.0	0.0	0.0	0
2011e	49.1	28.9	-16.1	8.9	7.8	5.6	0.0	0.0	0
2012e	23.6	14.5	-49.9	17.9	24.7	10.9	0.0	0.0	0

Biota Holdings (BTA : $2.98)

INVESTMENT FUNDAMENTALS

Yr Ending June	2008A	2009A	2010E	2011E	2012E
EPS Reported (c)	-3.7	21.7	33.3	27.8	13.4
EPS Normalised (c)	**-2.6**	**12.6**	**34.5**	**28.9**	**14.5**
EPS Growth (%)	N/A	575.4%	174.5%	-16.1%	-49.9%
PER Normalised (x)	**-29.2**	**15.3**	**8.1**	**9.6**	**19.2**
DPS (c)	0.0	0.0	0.0	0.0	0.0
Payout (%)	**0.0%**	**0.0%**	**0.0%**	**0.0%**	**0.0%**
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	5.1	5.7	11.1
EV / EBITDA (x)	-8.8	10.5	5.0	5.6	10.9
CFPS (c)	2.7	18.4	44.8	35.8	11.2
Price / CF	**28.4**	**10.4**	**6.2**	**7.8**	**24.7**
Book Value / Share ($)	0.4	0.6	0.9	1.0	1.2
Price / Book (x)	**2.2**	**3.5**	**3.3**	**2.7**	**2.4**

PROFIT & LOSS ($m)

Yr Ending June	2008A	2009A	2010E	2011E	2012E
Sales Revenue	20.5	45.0	109.6	70.0	61.2
EBITDA	-9.4	24.0	73.1	63.8	31.4
Depreciation	0.9	1.2	1.0	1.0	0.6
EBITA	**-10.3**	**22.8**	**72.1**	**62.8**	**30.8**
Amortisation	1.8	3.9	2.0	1.9	1.9
EBIT	**-12.1**	**18.9**	**70.1**	**60.9**	**28.9**
Net Interest Expense	-2.8	-2.9	-3.2	-4.0	-4.8
Pre-tax Profit	**-9.3**	**21.8**	**73.4**	**64.9**	**33.7**
Tax	-2.8	3.6	14.7	15.9	10.1
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
Equity accounted NPAT	0.0	0.0	0.0	0.0	0.0
Net Profit	**-6.5**	**18.2**	**58.7**	**49.1**	**23.6**
Abn's / Extraord's	0.0	20.0	0.0	0.0	0.0
Reported Net Profit	-6.5	38.2	58.7	49.1	23.6
Revenue Growth (%)	N/A	119.0%	143.7%	-36.2%	-12.5%
EBIT Growth (%)	N/A	256.2%	271.4%	-13.1%	-52.5%
NPAT Growth (%)	N/A	380.2%	222.8%	-16.4%	-51.9%

PROFITABILITY RATIOS

Yr Ending June	2008A	2009A	2010E	2011E	2012E
EBIT / Sales (%)	**-58.8%**	**42.0%**	**64.0%**	**87.1%**	**47.3%**
ROA (%)	N/A	69.9%	194.0%	95.3%	36.3%
ROE (%)	**N/A**	**22.7%**	**47.4%**	**29.7%**	**12.3%**
ROFE (%)	N/A	338.4%	390.7%	165.1%	58.5%

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	63.8	45.8	41.9
EBIT	-11.8	30.7	47.4	22.7	45.8
Net Profit	**-12.8**	**51.0**	**39.3**	**19.4**	**37.4**
EBIT / Sales (%)	-309.2%	74.5%	74.3%	49.5%	109.1%

BALANCE SHEET ($m)

Yr Ending June	2008A	2009A	2010E	2011E	2012E
Cash	**60.2**	**86.7**	**123.8**	**130.0**	**147.5**
Receivables	4.3	8.1	5.2	7.3	9.3
Inventories	0.0	0.0	0.0	0.0	0.0
Other	0.0	0.0	0.0	0.0	0.0
Current Assets	**64.4**	**94.8**	**129.0**	**137.2**	**156.8**
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
Non-current Assets	**24.8**	**16.9**	**42.2**	**73.2**	**69.1**
Total Assets	**89.3**	**111.6**	**171.2**	**210.4**	**225.9**
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
Total Liabilities	**26.0**	**14.6**	**20.8**	**31.0**	**22.8**
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	9.4	58.5	82.1
Minorities	0.0	0.0	0.0	0.0	0.0
Total Equity	**63.3**	**97.0**	**150.4**	**179.5**	**203.1**
Total Funds Employed	**3.1**	**10.3**	**26.6**	**49.5**	**55.6**

LIQUIDITY & LEVERAGE RATIOS

Yr Ending June	2008A	2009A	2010E	2011E	2012E
Net Debt (Cash) ($m)	-60.2	-86.7	-123.8	-130.0	-147.5
Net Debt / Equity (%)	**-95.0%**	**-89.4%**	**-82.3%**	**-72.4%**	**-72.6%**
Interest Cover (x)	4.3	-6.4	-21.7	-15.2	-6.0
Debt / CashFlow (x)	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**

CASHFLOW ($m)

Yr Ending June	2008A	2009A	2010E	2011E	2012E
EBIT	-12.1	18.9	70.1	60.9	28.9
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	4.8
Tax Paid	0.0	0.0	0.0	-15.9	-10.1
Dec / (Inc) W'kg Cap	9.7	-11.3	11.2	-1.1	-2.1
Other	1.4	17.0	-8.7	12.3	-4.3
Operating Cash Flow	**4.8**	**32.5**	**79.0**	**63.2**	**19.8**
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
Investing Cash Flow	**-3.8**	**-0.8**	**-1.9**	**-2.0**	**-2.3**
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
Financing Cash Flow	**-3.0**	**-5.1**	**-20.0**	**0.0**	**0.0**
Net Cash Flow	**-2.0**	**26.5**	**57.1**	**61.2**	**17.5**

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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