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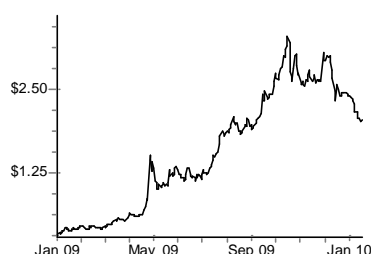
\$2.03

BUY

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Price Performance



Security/Capital Details

ASX Code	BTA
Market Cap	\$363 M
Issued Shares	179.0 M
Avg Mth T'over	24.40 M
12 Mth High – Low	\$3.28 - \$0.39

Key Data/Ratios – FY 2010

EBITDA / Sales	61.6%
EBIT / Sales	50.8%
Net Debt / Equity	n/a
Interest Cover	n/a
ROE	42.9%
EPS Growth	180.7%
PEG Ratio	x
NTA / Share	\$ 0.70
DCF	\$ 1.93
12 Mth Price Target	\$ 2.42

Recommendation

The market is placing 2009's H1N1 pandemic event in its proper context, one feels, with the Biota share price having fallen to \$2.03 per share. We see value at these levels and have upgraded our recommendation from HOLD to BUY. Biota will likely announce indicative royalties of \$30M or more, following GSK's quarterly result in two week's time. But we lack confidence about GSK's prospects in the longer term maturation of the Relenza business. Fortunately, the LANI asset will continue to appreciate this year. It may even be approved in Japan this half, if Daiichi-Sankyo can emulate what Shionogi achieved recently with peramivir – approved just two months after application. Minimal changes to our Relenza forecasts, but \$2.42 target price is maintained.

Key Points

- The market is placing 2009's H1N1 pandemic event in its proper context, one feels, with the Biota share price having corrected to \$2.03 per share. Relenza has increased its profile as an anti-viral drug of global significance, but it will probably remain second-tier in the short term and eventually be superseded by LANI and other products. FY10 will be a premium year for Biota's royalty revenue, but FY11 and FY12 are not likely to be as successful, on our current estimates.
- Although the CDC and other agencies have maintained appropriate vigilance against complacency, as they must, the sense of urgency is fading. We noted that infection rates and deaths peaked in early December. We doubt that 2009/10 anti-viral demand levels can be sustained into FY11 or FY12, once the significant US rebalancing contracts are filled. Our FY10 royalty estimate is \$119M, falling to \$60-70M in years FY11-12. Stockpile replenishment should begin to feature in FY13-15 as stockpile lots expire and are replaced. The replenishment contracts should support annual Relenza royalty levels of approximately \$35-60M, depending on timing, through to US patent expiry.
- We expect Daiichi-Sankyo to file a Japanese New Drug Application (NDA) in March for LANI. LANI may be approved in Japan this half if Daiichi can emulate Shionogi's recent achievement with peramivir. Shionogi filed their peramivir NDA in November and the product (RAPIACTA) was approved just last week. We are expecting to see a rest-of-world (ROW) partnering arrangement signed in June/July, for LANI. Potential partners will be motivated to conduct clinical trials in the 2010/11 northern hemisphere influenza season. GSK stands out as the most likely third party. This transaction is the most significant catalyst for Biota in 2010, to our minds. De-risking the ROW commercialisation pathway holds upgrade potential of approximately 15% in target price terms.
- As at the 2009 year end, BTA had underperformed XHJ and XJO by 33%, following our SELL recommendation in October. The further share price decline over January is unwarranted; partially due to the persistent market ignorance regarding the difference between anti-virals, vaccines and who sells which. We identify an opportunity to take renewed interest in Biota at these levels, and remain of the view that Biota should be capable of sustaining a \$3+ share price in mid-late 2011 – LANI transaction permitting.
- We upgrade our recommendation from HOLD to BUY. Biota will likely announce indicative royalties of \$30M or higher following GSK's quarterly result in two week's time. We see realistic prospects of a franked dividend payout, too, in FY10, though we provide no estimate of that. No changes to our \$2.42 target.

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	51.0	35.2	180.7	5.8	4.6	3.2	0.0	0.0	0
2011e	37.2	21.9	-38.0	9.3	7.1	5.7	0.0	0.0	0
2012e	13.6	8.7	-60.3	23.4	37.0	13.4	0.0	0.0	0

Biota Holdings (BTA : \$2.03)

INVESTMENT FUNDAMENTALS

Yr Ending June	2008A	2009A	2010E	2011E	2012E
EPS Reported (c)	-3.7	21.7	28.5	20.8	7.6
EPS Normalised (c)	-2.6	12.6	35.2	21.9	8.7
EPS Growth (%)	N/A	575.4%	180.7%	-38.0%	-60.3%
PER Normalised (x)	-29.2	15.3	5.8	9.3	23.4
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	3.3	5.8	13.9
EV / EBITDA (x)	-8.8	10.5	3.2	5.7	13.4
CFPS (c)	2.7	18.4	44.4	28.7	5.5
Price / CF	28.4	10.4	4.6	7.1	37.0
Book Value / Share (\$)	0.4	0.6	0.8	0.9	1.0
Price / Book (x)	2.2	3.5	2.6	2.3	2.1

PROFIT & LOSS (\$m)

Yr Ending June	2008A	2009A	2010E	2011E	2012E
Sales Revenue	20.5	45.0	119.6	70.0	61.2
EBITDA	-9.4	24.0	73.7	42.9	17.7
Depreciation	0.9	1.2	1.0	1.0	0.6
EBITA	-10.3	22.8	72.7	41.9	17.1
Amortisation	1.8	3.9	12.0	1.9	1.9
EBIT	-12.1	18.9	60.7	40.0	15.2
Net Interest Expense	-2.8	-2.9	-3.1	-3.9	-4.3
Pre-tax Profit	-9.3	21.8	63.8	44.0	19.5
Tax	-2.8	3.6	12.8	6.8	5.8
Tax rate (%)	30.3%	16.7%	20.0%	15.4%	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	51.0	37.2	13.6
Abn's / Extraord's	0.0	20.0	0.0	0.0	0.0
Reported Net Profit	-6.5	38.2	51.0	37.2	13.6
Revenue Growth (%)	N/A	119.0%	165.9%	-41.5%	-12.5%
EBIT Growth (%)	N/A	256.2%	221.6%	-34.1%	-62.0%
NPAT Growth (%)	N/A	380.2%	180.7%	-27.1%	-63.4%

PROFITABILITY RATIOS

Yr Ending June	2008A	2009A	2010E	2011E	2012E
EBIT / Sales (%)	-58.8%	42.0%	50.8%	57.2%	24.9%
ROA (%)	N/A	69.9%	194.9%	74.2%	21.9%
ROE (%)	N/A	22.7%	42.9%	24.9%	8.3%
ROFE (%)	N/A	338.4%	540.3%	149.5%	40.1%

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	63.2	56.4	41.9
EBIT	-11.8	30.7	39.3	21.4	35.3
Net Profit	-12.8	51.0	32.8	18.2	32.9
EBIT / Sales (%)	-309.2%	74.5%	62.2%	37.9%	84.2%

BALANCE SHEET (\$m)

Yr Ending June	2008A	2009A	2010E	2011E	2012E
Cash	60.2	86.7	124.2	118.5	126.0
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	129.4	125.8	135.4
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	16.4	49.5	47.6
Other	5.2	1.5	8.0	4.9	1.0
Non-current Assets	24.8	16.9	32.2	63.2	59.1
Total Assets	89.3	111.6	161.6	189.0	194.5
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	6.2	6.2	6.2
Retained Profits	-97.3	-59.1	0.2	37.4	51.0
Minorities	0.0	0.0	0.0	0.0	0.0
Total Equity	63.3	97.0	140.8	158.0	171.7
Total Funds Employed	3.1	10.3	16.6	39.5	45.6

LIQUIDITY & LEVERAGE RATIOS

Yr Ending June	2008A	2009A	2010E	2011E	2012E
Net Debt (Cash) (\$m)	-60.2	-86.7	-124.2	-118.5	-126.1
Net Debt / Equity (%)	-95.0%	-89.4%	-88.2%	-75.0%	-73.4%
Interest Cover (x)	4.3	-6.4	-19.7	-10.1	-3.6
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	60.7	40.0	15.2
Dep'n and Amort'n	2.7	5.1	13.0	2.9	2.5
Net Int Rec'd (Paid)	2.8	2.8	3.1	3.9	4.3
Tax Paid	0.0	0.0	0.0	-6.8	-5.8
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	79.4	51.3	9.8
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	-20.0	-35.0	0.0
Other Inv. Flows	0.0	0.0	0.0	0.0	0.0
Investing Cash Flow	-3.8	-0.8	-21.9	-37.0	-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	-20.0	0.0
Financing Cash Flow	-3.0	-5.1	-20.0	-20.0	0.0
Net Cash Flow	-2.0	26.5	37.5	-5.7	7.5



Recommendation Structure

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

Other definitions

CS Coverage Suspended. Wilson HTM Ltd has suspended coverage of this company.

NR Not Rated. The recommendation has been suspended temporarily. Such suspension is in line with Wilson HTM Investment Group Ltd policies in circumstances where Wilson HTM Corporate Finance Ltd is acting in an advisory capacity in a merger or strategic transaction involving the company and in certain other situations.

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