



Biota Holdings Limited (BTA)

Outperform

Don't Discount Relenza Yet; Upgrade

\$2.05

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Key Points

Global H1N1 vaccine surplus and currently a low global incidence of swine H1N1, particularly in the US, are negatively impacting stock.

2Q10 Relenza royalties likely to be the largest in Company's history, as fulfilment of contracted orders representing > 60 countries continues.

No evidence to date of anti-viral government supply contracts under threat, for both Relenza and Tamiflu.

Summary

Market capitalisation (M)	\$359.7
Share price	\$2.05
Shares on issue (M)	179.0
52 week low	\$0.39
52 week high	\$3.34
Ave Monthly Vol (M)	24.5
Valuation Per Share (fully diluted)	\$2.63
Cash (M) as at 30/9/09	\$77.0

Our View

- Vaccine Oversupply Has Limited Impact on Existing Anti-Viral Orders –** We note recent GSK comments highlighting oversupply issues with 130m vaccines shipped in the 4Q CY09 alone. Unlike a vaccine, which must be consumed within one year or less, anti-virals (Relenza, Tamiflu), which have a shelf life of 5-7 years, are effectively a sound hedge for the unpredictable nature of influenza and more particularly, vaccine development. The swine H1N1 “scare” should be viewed as re-enforcing the need for anti-viral drug stockpiles given vaccine supply lags any epidemic/pandemic by > 6 months and the virus is subject to change season on season. Governments have effectively been caught out on this very fact. Indeed, it can be argued a less vaccinated population may be of benefit for anti-viral use should dangerous strains re-emerge. Despite this, we do believe some impact will manifest from less severe H1N1 activity/spread from governments who are: (1) yet to embark in serious anti-viral stockpiling (e.g. developing countries) and (2) those where due consideration has been given to increasing the percentage of population coverage, or the Relenza percentage in existing stockpiles. With >60 countries having placed orders in 2Q CY09, and capacity moving from 60m p/a to 90m p/a as at Oct 09 we see no impact on 2Q10 royalties (TC est. \$38m), with 2H10 (and FY10 est. of \$134.5m) still dependent on stockpile manoeuvres predominately within the US, and possibly Japan.

Key Financials (A\$'000)

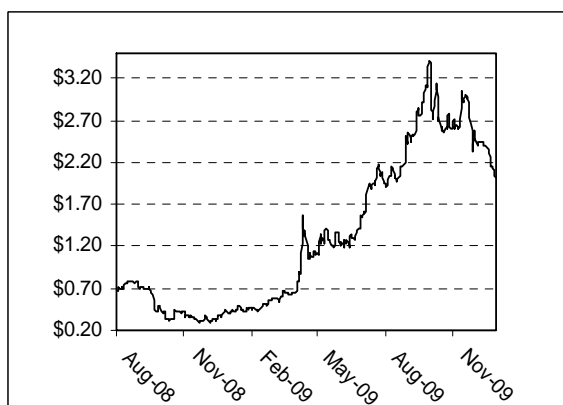
Year End	FY09 Actual	FY10 Est.	FY11 Est.
Relenza Royalties	45,000	134,522	54,417
Partnering Income*	4,426	7,467	10,667
Total Revenue	63,334	150,678	72,178
Total Op. Expenses	(15,810)	(16,492)	(12,217)
R&D Expenses	(13,348)	(24,617)	(32,973)
EBITDA	43,997	106,925	22,038
Normalised NPAT	20,343	84,482	14,839
Adj. NPAT	38,181	84,482	14,839
Adj. EPS (c)	21.7	47.6	8.3
Adj. PE Ratio (x)	9.5	4.3	24.7

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

- LANI License/Japanese Approval Key Milestones –** Management recently re-iterated guidance that a LANI license deal would be executed during FY10. While the current lull in influenza interest globally may impact on the final financial terms of the deal, we still maintain a US\$200m deal (ex-royalties) is possible on LANI. We note the recent approval of peramivir in Japan by Shionogi (developer was BioCryst Pharmaceuticals), an i.v. neuraminidase inhibitor, for the treatment of hospitalised influenza patients. The approval was one of the fastest market authorisations by the Japanese government (2.3 months). Daiichi Sankyo intends to file for LANI before the end of 1Q CY10. We anticipate first royalties under a LANI Japanese approval in 2H11, which may play out 1H earlier than anticipated using peramivir as a precedent. We believe peramivir use will be limited, in the absence of a major escalation in hospital admissions.

- Outlook/Upgrade –** We maintain our FY10 adjusted NPAT of \$84.5m, though we freely acknowledge 2H10 Relenza sales remain key to the scale of FY10 NPAT. Given the recent weakness in the stock, we have upgraded our Market Perform to an Outperform, noting the imminent 2Q10 Relenza result (Feb 4th) and longer term, an ex-Japan global license deal for LANI. We have not currently factored into our FY10-FY12 P&L assumptions the prospect of a deal on LANI, which could provide material upside to our estimates. Our price target is reduced by 3cps to \$2.63.

Share Price Graph (A\$)



Appendix 1: Changes to Forecasts

Changes to Forecasts

	FY10E			FY11E			FY12E		
	Previous	Revised	Change	Previous	Revised	Change	Previous	Revised	Change
Relenza Volumes (m)	76.9	76.9	0.0%	31.1	31.1	0.0%	31.6	31.6	0.1%
Relenza Royalties (A\$m)	134.5	134.5	0.0%	54.4	54.4	0.0%	55.3	55.3	0.1%
EBITDA	106.9	106.9	0.0%	22.0	22.0	0.2%	25.2	25.2	-0.2%
Reported NPAT	72.1	76.2	5.7%	17.6	10.7	-39.3%	23.5	23.2	-1.3%
Reported EPS (c)	40.6	42.9	5.8%	9.9	6.0	-39.7%	13.1	13.0	-1.1%
Adj. NPAT	84.5	84.5	0.0%	17.8	14.8	-16.6%	23.5	23.2	-1.3%
Adj. EPS (c)	47.6	47.6	0.0%	9.9	8.3	-16.3%	13.1	13.0	-1.1%

Source: Taylor Collison estimates

Biota Holdings Limited - Summary of Forecasts

BTA \$2.05

PROFIT & LOSS SUMMARY (A\$'000)

	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	6,020	1,420	700
Total Revenue	44,989	63,334	150,678	72,178	82,192
Growth (pcp)	-21.5%	40.8%	137.9%	-52.1%	13.9%
Net Gain on GSK Settlement	0	12,756	0	0	0
Net Operating Revenue	3,592	60,280	134,186	59,961	69,655
R&D Expenses	(10,287)	(13,348)	(24,617)	(32,973)	(38,364)
EBITDA	(9,897)	43,997	106,925	22,038	25,162
Depreciation	(933)	(1,184)	(1,108)	(1,463)	(1,471)
Amortisation	(1,681)	(3,931)	(4,750)	(6,975)	(827)
EBIT	(12,511)	38,882	101,068	13,600	22,864
Net Interest	3,202	2,935	2,645	4,949	6,130
Pre-Tax Profit	(9,309)	41,817	103,712	18,549	28,994
Tax Expense	2,820	(3,636)	(19,230)	(3,710)	(5,799)
Minorities	0	0	0	0	0
NPAT Normalised *	8,761	20,343	84,482	14,839	23,195
NPAT Adj.	(6,489)	38,181	84,482	14,839	23,195
Growth (pcp)	n/a	n/a	121.3%	-82.4%	56.3%
Net Adjustments	0	0	(8,250)	(4,150)	0
Reported Profit	(6,489)	38,181	76,232	10,689	23,195

PER SHARE DATA

Period	FY08A	FY09A	FY10E	FY11E	FY12E
Adjusted EPS (c)	(3.5)	21.7	47.6	8.3	13.0
Growth (pcp)	n/a	n/a	119.7%	-82.6%	56.3%
Reported EPS (c)	(3.5)	21.7	42.9	6.0	13.0
Growth (pcp)	n/a	n/a	98.2%	-86.1%	117.0%
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	45.2	14.5	15.7
NTA per share (c)	28.0	50.3	88.9	100.3	113.8

VALUATION MULTIPLES

Period	FY08A	FY09A	FY10E	FY11E	FY12E
Adjusted PE Ratio (x)	n/a	9.5	4.3	24.7	15.8
PE Ratio (x)	n/a	9.5	4.8	34.3	15.8
Dividend Yield (%)	n/a	0.0%	0.0%	0.0%	0.0%
EV/EBITDA (x)	n/a	6.2	2.0	8.6	6.5
EV/EBIT (x)	n/a	7.0	2.1	14.0	7.1

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%	71.0%	30.5%	30.6%
EBIT/Sales Margin %	-27.8%	61.4%	67.1%	18.8%	27.8%
Current ratio (x)	3.4	7.6	14.3	14.5	15.1
Net Debt : Equity (%)	-94.8%	-89.4%	-87.8%	-94.1%	-96.4%
ROE (%)	-9.6%	47.6%	64.3%	8.6%	12.1%
Dividend Payout Ratio (%)	n/a	0.0%	0.0%	0.0%	0.0%

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

BALANCE SHEET SUMMARY (A\$'000)

Period	FY08A	FY09A	FY10E	FY11E	FY12E
Cash	60,164	86,704	145,493	169,876	196,409
Receivables	4,270	8,067	15,068	13,714	12,329
Inventories	0	0	0	0	0
Other	0	0	0	0	0
Total Current Assets	64,434	94,771	160,561	183,590	208,738
Inventories	0	0	0	0	0
Property Plant & Equip	7,543	6,924	7,316	7,353	7,382
Intangibles	12,113	8,402	7,802	827	0
Other	5,168	1,532	1,532	1,532	1,532
Total Non-Current Assets	24,824	16,858	16,651	9,712	8,914
TOTAL ASSETS	89,258	111,629	177,212	193,302	217,652
Accounts Payable	12,023	5,631	6,027	7,218	8,219
Borrowings	0	0	0	0	0
Provisions	1,122	1,561	1,122	1,344	1,480
Other	6,059	5,262	4,102	4,102	4,102
Total Current Liab	19,204	12,454	11,251	12,664	13,801
Borrowings	132	0	0	0	0
Provisions	6,622	2,143	296	134	152
Other	0	0	0	0	0
Total Non-Current Liab	6,754	2,143	296	134	152
TOTAL LIABILITIES	25,958	14,597	11,547	12,798	13,953
TOTAL EQUITY	63,300	97,032	165,664	180,504	203,699

CASH FLOW SUMMARY (A\$'000)

Period	FY08A	FY09A	FY10E	FY11E	FY12E
EBIT (excl Abs/Extr)	(12,511)	38,882	101,068	13,600	22,864
Add: Depreciation	933	1,184	1,108	1,463	1,471
Amortisation	1,681	3,931	4,750	6,975	827
Change in Pay.	6,019	(6,392)	396	1,191	1,001
Less: Tax paid	2,820	0	(19,230)	(3,710)	(5,799)
Net Interest	3,202	2,935	2,645	4,949	6,130
Change in Rec.	5,080	(3,797)	(7,001)	1,354	1,385
Other	(4,090)	(8,191)	(8,196)	(6,915)	(673)
Gross Cashflows	4,815	32,483	80,289	25,883	28,033
Capex	(3,785)	(798)	(1,500)	(1,500)	(1,500)
Free Cashflows	1,030	31,685	78,789	24,383	26,533
Buy-Back/Cap. Return**	(3,022)	(5,145)	(20,000)	0	0
Net Cash Flow	(1,992)	26,540	58,789	24,383	26,533

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

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