



Biota Holdings Limited (BTA)

Market Perform

Relenza Hurdle to Jump, HCV Program Returned

\$2.19

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Key Points

GSK expected to report quarterly Relenza sales on April 28th.

Strong Relenza Q likely to kick start interest as market focuses on LANI license deal and approval in Japan.

HCV license deal with Boeringer Ingelheim has been terminated.

Summary

Market capitalisation (M)	\$392.0
Share price	\$2.19
Shares on issue (M)	179.0
52 week low	\$0.66
52 week high	\$3.34
Ave Monthly Vol (M)	28.0
Valuation Per Share (fully diluted)	\$2.68
Cash (M) as at 31/12/09	\$52.0

Our View

- Relenza Quarterly Needs to Be Solid** – Based on a run rate of 90m courses p/a, which excludes the additional 100m p/a via the new inhaler format, GSK should be producing approx. 22-23m courses per Q, translating to a Q royalty to Biota towards \$39m at A\$25 per course pricing (govt. pricing largely remains confidential). We don't believe any material orders have eventuated for the Rotahaler format as yet. Roche's recent quarter highlighted the majority of its Tamiflu stockpiling orders were now complete, albeit off a much higher manufacturing base than GSK. Sub-capacity Relenza sales to us would infer stockpiling has either slowed or existing orders have been completed. From our perspective, primary and stockpile re-balancing orders have had limited visibility since the H1N1 swine flu pandemic last April.

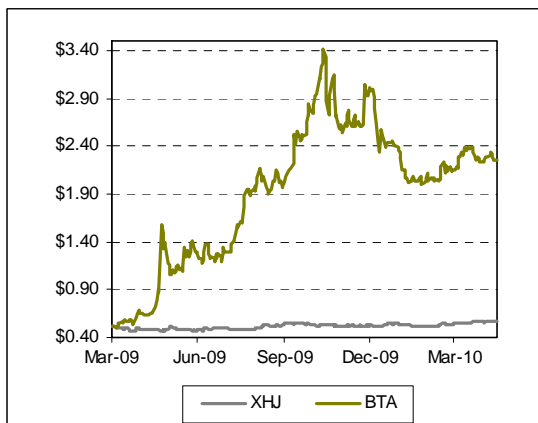
Key Financials (A\$'000)

Year End	FY09 Actual	FY10 Est.	FY11 Est.
Relenza Royalties	45,000	129,168	54,417
Partnering Income*	4,426	800	0
Total Revenue	63,334	138,569	63,359
Total Op. Expenses	(15,810)	(16,516)	(12,252)
R&D Expenses	(13,348)	(24,617)	(32,973)
EBITDA	43,997	94,881	11,336
Normalised NPAT	20,343	76,217	9,429
Adj. NPAT	38,181	76,217	9,429
Adj. EPS (c)	21.7	42.9	5.3
Adj. PE Ratio (x)	10.1	5.1	41.6

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

- Guidance Slippage on LANI** – At a recent US presentation, Biota adjusted the goal posts slightly for LANI, indicating a license deal within 3-6 months (previous: end FY10), suggesting slippage into 3Q CY10 is possible. We anticipate Biota will execute a significant partnering deal for LANI (TC est. US\$200m in upfront, milestones + 17.5% royalty rate, given Phase 3 validation in Japan), of which 50% flows to Daiichi Sankyo. We also note the imminent approval of LANI for influenza treatment in Japan. Biota recently indicated the Daiichi Phase 3 prophylaxis trial had completed recruitment during the most recent Asian flu season, and is in the process of being written up and included in the new drug application (NDA) for LANI in due course. We interpret this statement to mean a concurrent approval for both treatment and prophylaxis is plausible. Though this may delay a strict treatment-only approval timeline (TC est. 2H10), the benefit will be to expedited Japanese govt pandemic orders; potentially during 1H12 v 2H12 on our estimates.

Share Price Graph (A\$)



- Hepatitis C Virus (HCV) Nucleoside Program Returned** – This is the second partnered program returned by licensees this FY, with the RSV license also terminated by AZ in 1Q10. We understand the main determinants were less related to scientific progress of the development agreement, but the significant intellectual property (IP) covering nucleoside inhibitors for HCV, resulting in a potentially encumbered market position into the future. We had anticipated a US\$5.0m payment during the current half, which we have stripped out of our FY10 estimates (similarly for FY11, FY12). We have also cut the valuation of this program from \$0.14 ps to zero, believing Biota will kill the program, though potentially keep any patents.

- Outlook** – We consider the upcoming Relenza Q result by GSK as pivotal to our 2H10 Relenza estimate of \$72.5m and FY10 estimate of \$129.2m in royalty collections. We have cut our FY10 adj. NPAT estimate by 5.6% to \$76.2m and we are reducing our recommendation from Outperform to Market Perform while we await the GSK Relenza result. Our valuation/PT is reduced by 11.0 cps to \$2.68 predominately related to the HCV program hand back, partially offset to more favourable interest rates on cash held.

Changes to Forecasts

Changes to our forecasts relate to the foregone milestone payments relating to the HCV deal with Boeinger Ingelheim, which we had modelled progressively through to FY12. The forward P&L does not recognise any contribution from a LANI or HRV license deal. This will be determined if such deals are concluded by Biota, per guidance.

Changes to Forecasts

	FY10E			FY11E			FY12E		
	Previous	Revised	Change	Previous	Revised	Change	Previous	Revised	Change
Relenza Volumes (m)	73.8	73.8	0.0%	31.1	31.1	0.0%	31.6	31.6	0.1%
Relenza Royalties (A\$m)	129.2	129.2	0.0%	54.4	54.4	0.0%	55.3	55.3	0.1%
EBITDA	101.6	94.9	-6.6%	22.0	11.3	-48.5%	25.1	13.1	-47.7%
Reported NPAT	72.5	67.8	-6.5%	12.5	5.3	-57.8%	21.8	13.5	-37.9%
Reported EPS (c)	40.8	38.2	-6.4%	7.0	2.9	-57.9%	12.2	7.6	-38.0%
Adj. NPAT	80.7	76.2	-5.6%	16.6	9.4	-43.2%	21.8	13.5	-37.9%
Adj. EPS (c)	45.5	42.9	-5.6%	9.3	5.3	-43.4%	12.2	7.6	-38.0%

Source: Taylor Collison estimates

Biota Holdings Limited - Summary of Forecasts

BTA

\$2.19

PROFIT & LOSS SUMMARY (A\$'000)				
Period	FY09A	FY10E	FY11E	FY12E
Relenza Royalties	45,000	129,168	54,417	55,333
Partnering (Licence) Income	4,426	800	0	0
Research income (inc Grants)	10,966	6,020	1,420	700
Total Revenue	63,334	138,569	63,359	71,375
<i>Growth (pcp)</i>	<i>40.8%</i>	<i>118.8%</i>	<i>-54.3%</i>	<i>12.7%</i>
Net Gain on GSK Settlement	12,756	0	0	0
Net Operating Revenue	60,280	122,053	51,106	58,799
R&D Expenses	(13,348)	(24,617)	(32,973)	(38,364)
EBITDA	43,997	94,881	11,336	13,123
Depreciation	(1,184)	(1,316)	(1,322)	(1,357)
Amortisation	(3,931)	(4,750)	(3,531)	0
EBIT	38,882	88,815	6,484	11,766
Net Interest	2,935	2,556	6,797	7,312
Pre-Tax Profit	41,817	91,371	13,281	19,078
Tax Expense	(3,636)	(15,154)	(3,851)	(5,533)
Minorities	0	0	0	0
NPAT Normalised *	20,343	76,217	9,429	13,546
NPAT Adj.	38,181	76,217	9,429	13,546
<i>Growth (pcp)</i>	<i>n/a</i>	<i>99.6%</i>	<i>-87.6%</i>	<i>43.7%</i>
Net Adjustments**	0	(8,410)	(4,150)	0
Reported Profit	38,181	67,807	5,279	13,546

PER SHARE DATA				
Period	FY09A	FY10E	FY11E	FY12E
Adjusted EPS (c)	21.7	42.9	5.3	7.6
<i>Growth (pcp)</i>	<i>n/a</i>	<i>98.2%</i>	<i>-87.7%</i>	<i>43.7%</i>
Reported EPS (c)	21.7	38.2	2.9	7.6
<i>Growth (pcp)</i>	<i>n/a</i>	<i>76.3%</i>	<i>-92.3%</i>	<i>156.6%</i>
Dividend (c)	0.0	0.0	0.0	0.0
Franking	0%	0%	0%	0%
Gross CF per Share (c)	18.4	55.3	3.1	10.6
NTA per share (c)	50.3	89.7	96.1	103.7

VALUATION MULTIPLES				
Period	FY09A	FY10E	FY11E	FY12E
Adjusted PE Ratio (x)	10.1	5.1	41.6	29.0
PE Ratio (x)	10.1	5.7	74.3	29.0
Dividend Yield (%)	0.0%	0.0%	0.0%	0.0%
EV/EBITDA (x)	6.9	2.4	19.8	15.8
EV/EBIT (x)	7.9	2.6	34.6	17.6

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

KEY RATIOS				
Period	FY09A	FY10E	FY11E	FY12E
EBITDA/Sales Margin %	69.5%	68.5%	17.9%	18.4%
EBIT/Sales Margin %	61.4%	64.1%	10.2%	16.5%
Current ratio (x)	7.6	6.9	11.7	10.8
Net Debt : Equity (%)	-89.4%	-98.1%	-97.5%	-99.8%
ROE (%)	47.6%	57.8%	5.6%	7.6%
Dividend Payout Ratio (%)	0.0%	0.0%	0.0%	0.0%

*FY09: Excluding litigation expense and GSK settlement, tax effected at 30%

** Amortisation charges for MaxThera and Prolysis acquisitions in 4Q CY09

BALANCE SHEET SUMMARY (A\$'000)				
Period	FY09A	FY10E	FY11E	FY12E
Cash	86,704	163,734	167,833	185,280
Receivables	8,067	13,857	12,038	10,706
Inventories	0	0	0	0
Other	0	0	0	0
Total Current Assets	94,771	177,591	179,871	195,986
Inventories	0	0	0	0
Property Plant & Equip	6,924	6,608	6,787	6,929
Intangibles	8,402	7,680	0	0
Other	1,532	992	992	992
Total Non-Current Assets	16,858	15,281	7,778	7,921
TOTAL ASSETS	111,629	192,871	187,650	203,907
Accounts Payable	5,631	5,543	6,336	7,137
Borrowings	0	0	0	0
Provisions	1,561	1,122	1,131	1,360
Other	5,262	19,256	7,953	9,635
Total Current Liab	12,454	25,921	15,420	18,132
Borrowings	0	0	0	0
Provisions	2,143	86	86	86
Other	0	0	0	0
Total Non-Current Liab	2,143	86	86	86
TOTAL LIABILITIES	14,597	26,007	15,506	18,218
TOTAL EQUITY	97,032	166,864	172,144	185,689

CASH FLOW SUMMARY (A\$'000)				
Period	FY09A	FY10E	FY11E	FY12E
EBIT (excl Abs/Extr)	38,882	88,815	6,484	11,766
Add: Depreciation	1,184	1,316	1,322	1,357
Amortisation	3,931	13,160	7,681	0
Change in Pay.	(6,392)	(88)	793	802
Less: Tax paid	0	0	(15,154)	(3,851)
Net Interest	2,935	2,556	6,797	7,312
Change in Rec.	(3,797)	(5,790)	1,819	1,332
Other	(8,191)	(6,638)	(7,672)	230
Gross Cashflows	32,483	98,080	5,599	18,947
Capex	(798)	(1,000)	(1,500)	(1,500)
Free Cashflows	31,685	97,080	4,099	17,447
Buy-Back/Cap. Return**	(5,145)	(20,007)	0	0
Net Cash Flow	26,540	77,073	4,099	17,447

** 5% buyback, ending 7th Oct 2008; \$20m capital return in Nov 09

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