

# Biota Holdings

## HCV Deal Killed



Wilson HTM  
INVESTMENT GROUP

20 April 2010

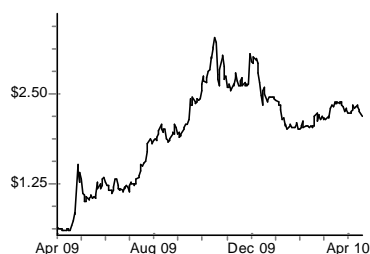
\$2.19

HOLD

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### Price Performance



### Security/Capital Details

ASX Code	BTA
Market Cap	\$392 M
Issued Shares	179.0 M
Avg Mth T'over	24.40 M
12 Mth High – Low	\$3.28 - \$0.62

### Key Data/Ratios – FY 2010

EBITDA / Sales	63.0%
EBIT / Sales	60.0%
Net Debt / Equity	-84.2%
Interest Cover	-27.2 x
ROE	46.0%
EPS Growth	156.7%
PEG Ratio	x
NTA / Share	\$ 0.61
DCF	\$ 1.93
12 Mth Price Target	\$ 2.26

### Recommendation

Biota's Hepatitis C (HCV) programme has been returned by its partner, Boehringer Ingelheim (BI). In BI's hands, the programme failed to identify a drug candidate suitable for pre-clinical development. BI and Biota embarked on this project in 2006, seeking to develop nucleoside drugs that could be included in fixed-dose combination products for HCV. We had maintained a valuation of \$24M for the programme, which essentially was a risked recognition of the c.\$100M in milestone payments that could potentially flow to Biota under the BI deal. With the deal concluded, we have taken the HCV program out of the valuation and forecasts. The effect is a 16cps reduction in target price to \$2.26 per share and a \$7M downgrade to FY12 NPAT reflecting the elimination of milestone payments. We downgrade our investment rating from BUY to HOLD ahead of GSK's Q1 result on 28<sup>th</sup> April.

### Key Points

- Biota's Hepatitis C (HCV) programme has been returned by its partner, Boehringer Ingelheim (BI). The project commenced in 2006 and sought to exploit Biota's intellectual property around nucleoside drugs which might be included in fixed dose combination therapies for the treatment of HCV. In BI's hands, the programme failed to produce a suitable drug candidate. The intellectual property rights have been returned to Biota.
- We had maintained a valuation of \$24M for the HCV programme, which essentially was the risked recognition of the c.\$100M in milestone payments that could potentially flow to Biota under the BI deal. We were expecting the HCV project to move beyond lead identification this year, but had not factored any milestone payments until FY12, which was when we saw the programme reaching preliminary clinical validation.
- With the HCV deal with BI now concluded, we have taken the HCV program out of our valuation and forecasts. The effect is a 16cps reduction in target price to \$2.26 per share and a \$7M downgrade to FY12 NPAT reflecting the elimination of milestone payments. There is no impact on our FY10 or FY11 estimates – we typically do not recognise any EBITDA contribution from research or collaborative income that Biota receives from its partners/licensors.
- The company noted that the partnering negotiations around the LANI and HRV programs are ongoing. Wisely, the company has not set any specific timing expectations for these transactions. Our own view is that we expect to see LANI partnered mid-2010 with the HRV programme to follow towards the end of this year. The LANI deal is the pivotal event for 2010.
- GSK's Q12010 results come out on 28<sup>th</sup> February and BTA trading looks relatively timid in the lead-up to that result. We suspect that the current share price of \$2.18 is pricing in an indicative royalty of c.\$35-40M for the quarter. There is reasonable evidence to support 2HFY10 royalty receipts of ~\$65-70M. This year will probably be Relenza's peak, unless another respiratory virus outbreak comes along to grip the market's attention. So there is probably more downside attached to the way the market is looking at Relenza as investors start to scrutinize the outlook for FY11 and FY12.
- We downgrade our investment rating from BUY to HOLD ahead of GSK's Q1 result on 28th April. Although the rating change coincides with the unfortunate news about the HCV program, it is not driven by it. Our moderation on Biota is driven more by the sense that the market is still thinking more of Relenza's FY11 and FY12 than it should. LANI is clearly in investors' minds now, as Japanese approval approaches.

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	55.2	32.2	156.7	6.8	5.2	3.8	0.0	0.0	0
2011e	33.5	19.8	-38.6	11.1	10.1	6.8	0.0	0.0	0
2012e	6.6	4.7	-76.1	46.3	131.1	35.6	0.0	0.0	0

### Equities Research – Biota Holdings

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## Biota Holdings (BTA : \$2.19)

## INVESTMENT FUNDAMENTALS

Yr Ending June	2008A	2009A	2010E	2011E	2012E
EPS Reported (c)	-3.7	21.7	30.9	18.7	3.7
<b>EPS Normalised (c)</b>	<b>-2.6</b>	<b>12.6</b>	<b>32.2</b>	<b>19.8</b>	<b>4.7</b>
EPS Growth (%)	N/A	575.4%	156.7%	-38.6%	-76.1%
<b>PER Normalised (x)</b>	<b>-29.2</b>	<b>15.3</b>	<b>6.8</b>	<b>11.1</b>	<b>46.3</b>
DPS (c)	0.0	0.0	0.0	0.0	0.0
Payout (%)	<b>0.0%</b>	<b>0.0%</b>	<b>0.0%</b>	<b>0.0%</b>	<b>0.0%</b>
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	3.9	7.0	38.5
EV / EBITDA (x)	-8.8	10.5	3.8	6.8	35.6
CFPS (c)	2.7	18.4	42.0	21.8	1.7
<b>Price / CF</b>	<b>28.4</b>	<b>10.4</b>	<b>5.2</b>	<b>10.1</b>	<b>131.1</b>
Book Value / Share (\$)	0.4	0.6	0.8	0.9	0.9
<b>Price / Book (x)</b>	<b>2.2</b>	<b>3.5</b>	<b>2.7</b>	<b>2.5</b>	<b>2.4</b>

## PROFIT &amp; LOSS (\$m)

Yr Ending June	2008A	2009A	2010E	2011E	2012E
Sales Revenue	20.5	45.0	113.1	70.0	61.2
EBITDA	-9.4	24.0	71.3	40.5	7.7
Depreciation	0.9	1.2	1.0	1.0	0.6
<b>EBITA</b>	<b>-10.3</b>	<b>22.8</b>	<b>70.3</b>	<b>39.5</b>	<b>7.1</b>
Amortisation	1.8	3.9	2.4	1.9	1.9
<b>EBIT</b>	<b>-12.1</b>	<b>18.9</b>	<b>67.9</b>	<b>37.6</b>	<b>5.2</b>
Net Interest Expense	-2.8	-2.9	-2.5	-4.2	-4.2
<b>Pre-tax Profit</b>	<b>-9.3</b>	<b>21.8</b>	<b>70.4</b>	<b>41.7</b>	<b>9.4</b>
Tax	-2.8	3.6	15.1	8.2	2.8
Tax rate (%)	30.3%	16.7%	21.5%	19.8%	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
<b>Net Profit</b>	<b>-6.5</b>	<b>18.2</b>	<b>55.2</b>	<b>33.5</b>	<b>6.6</b>
Abn's / Extraord's	0.0	20.0	0.0	0.0	0.0
Reported Net Profit	-6.5	38.2	55.2	33.5	6.6
Revenue Growth (%)	N/A	119.0%	151.4%	-38.2%	-12.5%
EBIT Growth (%)	N/A	256.2%	259.4%	-44.7%	-86.1%
NPAT Growth (%)	N/A	380.2%	203.9%	-39.4%	-80.4%

## PROFITABILITY RATIOS

Yr Ending June	2008A	2009A	2010E	2011E	2012E
<b>EBIT / Sales (%)</b>	<b>-58.8%</b>	<b>42.0%</b>	<b>60.0%</b>	<b>53.7%</b>	<b>8.5%</b>
ROA (%)	N/A	69.9%	176.1%	62.3%	7.5%
<b>ROE (%)</b>	<b>N/A</b>	<b>22.7%</b>	<b>46.0%</b>	<b>22.3%</b>	<b>4.1%</b>
ROFE (%)	N/A	338.4%	425.1%	127.3%	16.8%

## INTERIMS (\$m)

Half Yr	Dec 08	Jun 09	Dec 09	Jun 10	Dec 10
Yr Ending June	1H A	2H A	1H A	2H E	1H E
Sales Revenue	3.8	41.2	56.7	56.4	41.9
EBIT	-11.8	30.7	39.9	28.0	34.3
<b>Net Profit</b>	<b>-12.8</b>	<b>51.0</b>	<b>33.5</b>	<b>21.8</b>	<b>30.0</b>
EBIT / Sales (%)	-309.2%	74.5%	70.3%	49.6%	81.8%

## BALANCE SHEET (\$m)

Yr Ending June	2008A	2009A	2010E	2011E	2012E
Cash	<b>60.2</b>	<b>86.7</b>	<b>120.7</b>	<b>117.7</b>	<b>118.3</b>
Receivables	4.3	8.1	10.2	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
<b>Current Assets</b>	<b>64.4</b>	<b>94.8</b>	<b>130.9</b>	<b>124.9</b>	<b>127.7</b>
Net PPE	7.5	6.9	7.3	8.3	10.0
Investments	0.0	0.0	0.0	0.0	0.0
Intangibles	12.1	8.4	33.5	51.6	49.7
Other	5.2	1.5	1.2	1.2	1.2
<b>Non-current Assets</b>	<b>24.8</b>	<b>16.9</b>	<b>42.0</b>	<b>61.1</b>	<b>60.9</b>
<b>Total Assets</b>	<b>89.3</b>	<b>111.6</b>	<b>172.9</b>	<b>186.0</b>	<b>188.6</b>
Current Payables	12.0	5.6	6.2	7.2	8.0
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	10.8	10.7	10.7
Other	12.7	7.4	12.5	11.2	6.4
<b>Total Liabilities</b>	<b>26.0</b>	<b>14.6</b>	<b>29.4</b>	<b>29.1</b>	<b>25.1</b>
Equity	159.1	154.6	145.8	125.8	125.8
Reserves	1.4	1.5	1.4	1.4	1.4
Retained Profits	-97.3	-59.1	-3.8	29.7	36.2
Minorities	0.0	0.0	0.0	0.0	0.0
<b>Total Equity</b>	<b>63.3</b>	<b>97.0</b>	<b>143.4</b>	<b>156.9</b>	<b>163.5</b>
<b>Total Funds Employed</b>	<b>3.1</b>	<b>10.3</b>	<b>22.7</b>	<b>39.3</b>	<b>45.1</b>

## LIQUIDITY &amp; LEVERAGE RATIOS

Yr Ending June	2008A	2009A	2010E	2011E	2012E
Net Debt (Cash) (\$m)	-60.2	-86.7	-120.7	-117.7	-118.3
<b>Net Debt / Equity (%)</b>	<b>-95.0%</b>	<b>-89.4%</b>	<b>-84.2%</b>	<b>-75.0%</b>	<b>-72.4%</b>
Interest Cover (x)	4.3	-6.4	-27.2	-9.0	-1.3
<b>Debt / CashFlow (x)</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>

## CASHFLOW (\$m)

Yr Ending June	2008A	2009A	2010E	2011E	2012E
EBIT	-12.1	18.9	67.9	37.6	5.2
Dep'n and Amort'n	2.7	5.1	3.4	2.9	2.5
Net Int Rec'd (Paid)	2.8	2.8	2.4	4.2	4.2
Tax Paid	0.0	0.0	-7.3	-8.2	-2.8
Dec / (Inc) W'kg Cap	9.7	-11.3	57.4	3.9	-1.3
Other	1.4	17.0	-48.6	-1.3	-4.8
<b>Operating Cash Flow</b>	<b>4.8</b>	<b>32.5</b>	<b>75.2</b>	<b>39.0</b>	<b>3.0</b>
Capital Expenditure	-3.8	-0.8	-1.2	-2.0	-2.3
Asset Sales	0.0	0.0	0.0	0.0	0.0
Investments	0.0	0.0	-20.0	-20.0	0.0
Other Inv. Flows	0.0	0.0	0.0	0.0	0.0
<b>Investing Cash Flow</b>	<b>-3.8</b>	<b>-0.8</b>	<b>-21.2</b>	<b>-22.0</b>	<b>-2.3</b>
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
<b>Financing Cash Flow</b>	<b>-3.0</b>	<b>-5.1</b>	<b>-20.0</b>	<b>-20.0</b>	<b>0.0</b>
<b>Net Cash Flow</b>	<b>-2.0</b>	<b>26.5</b>	<b>34.0</b>	<b>-3.0</b>	<b>0.7</b>

**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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The Directors of Wilson HTM Ltd advise that at the date of this report they and their associates have relevant interests 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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