

Biota Holdings

Upgrading – Valuation Basis



4 May 2010

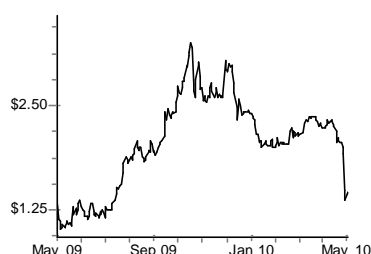
\$1.43

BUY

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Price Performance



Security/Capital Details

ASX Code	BTA
Market Cap	\$256 M
Issued Shares	179.0 M
Avg Mth T'over	24.40 M
12 Mth High – Low	\$3.28 - \$1.01

Key Data/Ratios – FY 2010

EBITDA / Sales	52.4%
EBIT / Sales	44.1%
Net Debt / Equity	-86.3%
Interest Cover	-13.1 x
ROE	27.7%
EPS Growth	53.5%
PEG Ratio	x
NTA / Share	\$ 0.60
DCF	\$ 1.54
12 Mth Price Target	\$ 1.80

Recommendation

It is not Biota's fault that GSK is struggling to live up to its rhetoric on Relenza. Valuation now reflects the pre-pandemic situation, where the share price was recognizing one, but not both, influenza assets. Our FY11 and FY12 forecasts now reflect pre-pandemic volumes of c.30M courses annually. While disappointing, we are reminded that the stockpile replenishment cycle will play out over FY12-15. The residual NPV in the Relenza royalty is c.\$140M (78 cps). The market has over-corrected the price, but not massively so. Our implied current value of Biota is \$1.54 per share. The target price has been cut to \$1.80/shr (previously \$2.26) which represents 26% TSR over a 12 month horizon. On that basis we upgrade to a BUY rating, despite the substantial downgrades. Biota is expected to partner ex-Japan rights to LANI this year. That is the dominant theme for the stock in 2010.

Key Points

- GSK is failing to live up to its rhetoric on Relenza, which is no fault of Biota, who owns an entirely passive, royalty interest in that product. GSK's poor Q1 showing takes us back to the bad old days with this frustrating asset, over which Biota has no control. Relenza Q1 sales of £84M (\$9.7M indicative royalty to Biota for Q3FY10) suggest that pandemic interest evaporated even faster than we thought it would. There is an apparent discrepancy between Relenza sales and the physical amount of product GSK indicated had been pre-sold to governments. A possible explanation is that the expected volumes were shipped but unit pricing was discounted materially, compared with previous antiviral stockpiling campaigns, conducted in calmer times.
- We have revised our estimates substantially. Most of FY10 is already spoken for but we forecast a nominal ~\$6.5M royalty for Q4FY10. In FY11 and FY12 we have cut sales volumes back to pre-pandemic levels (c.30M courses per year). Relenza is a wasting asset by virtue of its fixed patent term, but recall that the patents will still be in force in FY12-15, when US, EU and Japanese stockpiles reach and exceed expiry dates. This product will need to be replaced. We expect GSK to lose some of that business to Daiichi in the Japanese market, because LANI will probably be available. Japan may just discard its expired Relenza and replace it with LANI. LANI is unlikely to be approved in either US or EU before 2014 so it will probably not interfere with Relenza replenishment orders there.
- In our view, last week's de-rating of Biota overdid it; but not by much. Our sum-of-parts decomposition of target price now reads like this:

Figure 1: Sum-of-parts breakdown of Biota target price valuation

	Previous	Current	%chg
Relenza royalties	1.21	0.78	-35.5%
Cash	0.70	0.70	0.6%
LANI	0.96	0.96	0.3%
HRV	0.09	0.05	-45.9%
NPV R&D costs	-0.70	-0.70	0.0%
Σ Parts	2.26	1.80	-20.4%

Source: WHTM Research

- Our implied, current valuation of Biota is \$1.54 per share. The revised target of \$1.80 per share holds a 26% TSR from current levels and justifies a BUY rating (previously HOLD). The catalyst profile, this year, is dominated by the prospect of an ex-Japan deal for LANI. The HRV programme is also expected to be partnered this year, but we do not rate that programme as convincing a prospect as LANI.

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	29.7	19.3	53.5	7.4	7.1	4.0	0.0	0.0	0
2011e	11.1	7.9	-59.2	18.2	9.7	9.9	0.0	0.0	0
2012e	3.7	3.1	-60.2	45.7	54.0	26.5	0.0	0.0	0

Biota Holdings (BTA : \$1.43)

INVESTMENT FUNDAMENTALS

Yr Ending June	2008A	2009A	2010E	2011E	2012E
EPS Reported (c)	-3.7	21.7	16.6	6.2	2.1
EPS Normalised (c)	-2.6	12.6	19.3	7.9	3.1
EPS Growth (%)	N/A	575.4%	53.5%	-59.2%	-60.2%
PER Normalised (x)	-29.2	15.3	7.4	18.2	45.7
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	4.1	11.1	38.4
EV / EBITDA (x)	-8.8	10.5	4.0	9.9	26.5
CFPS (c)	2.7	18.4	20.3	14.7	2.7
Price / CF	28.4	10.4	7.1	9.7	54.0
Book Value / Share (\$)	0.4	0.6	0.7	0.7	0.7
Price / Book (x)	2.2	3.5	2.2	2.0	1.9

PROFIT & LOSS (\$m)

Yr Ending June	2008A	2009A	2010E	2011E	2012E
Sales Revenue	20.5	45.0	73.9	43.4	48.7
EBITDA	-9.4	24.0	38.7	13.1	4.8
Depreciation	0.9	1.2	1.4	1.4	1.5
EBITA	-10.3	22.8	37.3	11.7	3.3
Amortisation	1.8	3.9	4.8	3.0	1.9
EBIT	-12.1	18.9	32.6	8.7	1.4
Net Interest Expense	-2.8	-2.9	-2.5	-4.1	-4.6
Pre-tax Profit	-9.3	21.8	35.1	12.8	6.0
Tax	-2.8	3.6	5.3	1.7	2.3
Tax rate (%)	30.3%	16.7%	15.3%	13.3%	38.3%
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	29.7	11.1	3.7
Abn's / Extraord's	0.0	20.0	0.0	0.0	0.0
Reported Net Profit	-6.5	38.2	29.7	11.1	3.7
Revenue Growth (%)	N/A	119.0%	64.3%	-41.3%	12.2%
EBIT Growth (%)	N/A	256.2%	72.5%	-73.4%	-83.6%
NPAT Growth (%)	N/A	380.2%	63.4%	-62.8%	-66.6%

PROFITABILITY RATIOS

Yr Ending June	2008A	2009A	2010E	2011E	2012E
EBIT / Sales (%)	-58.8%	42.0%	44.1%	20.0%	2.9%
ROA (%)	N/A	69.9%	119.9%	34.5%	6.5%
ROE (%)	N/A	22.7%	27.7%	9.0%	2.8%
ROFE (%)	N/A	338.4%	282.2%	122.6%	93.6%

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	17.2	27.9
EBIT	-11.8	30.7	39.9	-7.3	14.2
Net Profit	-12.8	51.0	33.5	-3.8	15.5
EBIT / Sales (%)	-309.2%	74.5%	70.3%	-42.6%	50.9%

BALANCE SHEET (\$m)

Yr Ending June	2008A	2009A	2010E	2011E	2012E
Cash	60.2	86.7	101.8	126.0	128.5
Receivables	4.3	8.1	10.2	4.0	7.2
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	112.0	130.0	135.6
Net PPE	7.5	6.9	6.9	7.5	8.3
Investments	0.0	0.0	0.0	0.0	0.0
Intangibles	12.1	8.4	11.2	8.2	6.3
Other	5.2	1.5	1.2	1.2	1.2
Non-current Assets	24.8	16.9	19.2	16.8	15.7
Total Assets	89.3	111.6	131.2	146.9	151.4
Current Payables	12.0	5.6	2.5	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	0.0	0.0	0.0
Total Liabilities	26.0	14.6	13.3	17.9	18.7
Equity	159.1	154.6	145.8	145.8	145.8
Reserves	1.4	1.5	1.4	1.4	1.4
Retained Profits	-97.3	-59.1	-29.4	-18.3	-14.6
Minorities	0.0	0.0	0.0	0.0	0.0
Total Equity	63.3	97.0	117.9	128.9	132.6
Total Funds Employed	3.1	10.3	16.1	2.9	4.2

LIQUIDITY & LEVERAGE RATIOS

Yr Ending June	2008A	2009A	2010E	2011E	2012E
Net Debt (Cash) (\$m)	-60.2	-86.7	-101.8	-126.0	-128.5
Net Debt / Equity (%)	-95.0%	-89.4%	-86.3%	-97.7%	-96.9%
Interest Cover (x)	4.3	-6.4	-13.1	-2.1	-0.3
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	32.6	8.7	1.4
Dep'n and Amort'n	2.7	5.1	6.2	4.4	3.4
Net Int Rec'd (Paid)	2.8	2.8	2.4	4.1	4.6
Tax Paid	0.0	0.0	2.5	-1.7	-2.3
Dec / (Inc) W/kg Cap	9.7	-11.3	53.7	10.9	-2.4
Other	1.4	17.0	-61.1	-0.1	0.0
Operating Cash Flow	4.8	32.5	36.3	26.3	4.7
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	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	-1.2	-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	15.1	24.3	2.4

**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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