

Biota Holdings Limited

Investment Decision Pending On HRV ...



Wilson HTM
INVESTMENT GROUP

6 July 2010

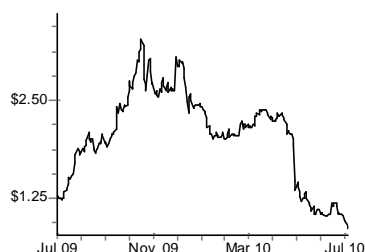
\$0.88

BUY

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Price Performance



Security/Capital Details

ASX Code	BTA
Market Cap	\$157 M
Issued Shares	179.2 M
Avg Mth T'over	24.40 M
12 Mth High – Low	\$3.28 - \$0.91

Key Data/Ratios – FY 2010

EBITDA / Sales	38.3%
EBIT / Sales	23.1%
Net Debt / Equity	-88.4%
Interest Cover	-6.7 x
ROE	14.4%
EPS Growth	4.1%
PEG Ratio	x
NTA / Share	\$ 0.53
DCF	\$ 1.52
12 Mth Price Target	\$ 1.69

Recommendation

The market has set Biota aside until it delivers a transaction on the ex-Japan LANI rights. The company is still planning for that event to occur before the end of 2010, but we face a difficult six months with this stock. We are less likely to see a deal done on the HRV drug (BTA798) in 2010, considering that more than a year has passed since Phase IIa proof-of-concept results came to hand. The company must now be weighing an investment decision – whether to invest \$25-30M in a Phase IIb campaign for BTA798 in asthma or COPD. The patent clock is ticking and the programme can ill afford to stand still. We have put through additional R&D expenses, impacting both valuation (-6%) and earnings estimates for FY11&12. BUY rating maintained on a valuation basis (53 cps in cash) but Biota is only for investors with the patience for high risks and high rewards. Target price is \$1.69.

Key Points

- Events occurring elsewhere in the market, some specific to the biotech sector, but none with any direct relevance to Biota, have engendered a sense of biotech-intolerance in this market. We thought Biota's share price would find support at \$1.20-\$1.30 while the market waited for a transaction on the ex-Japan LANI rights, but we were wrong about that level.
- Biota has not changed its guidance on the timing of the potential LANI deal, and is still planning for the event to occur before the end of 2010. We have not changed our view on the value of the LANI programme - which has a present worth of 83cps on a standalone basis. Our target price still describes a level at which we expect Biota's shares should trade, once world-wide commercialisation arrangements are in place for LANI. LANI contributes 97 cps to our Biota target price.
- In our sum of the parts valuation of Biota, Relenza royalties and expected R&D costs effectively cancel each other out. So it is a reasonable approach to look at Biota's valuation as Cash+LANI. Biota will have had 53 cps in cash at the end of FY10. In one aspect, the current share price of 88cps offers 48cps upside on LANI (PV terms).
- This investment, at this point in time, is only for the patient investor. Positive news will be thin over the next six months. No one expects a good Relenza royalty from GSK this month (22-July). Our estimate is just \$1.8M, bringing full FY10 royalty receipts to ~\$68M.
- The potential LANI transaction is the only positive catalyst we expect this year. The company may also deliver a licensing transaction on the human rhinovirus (HRV) programme – the BTA798 compound – but we think this is less likely. More than a year has passed since the Phase IIa proof-of-concept data was announced. The company must now be assessing an investment decision – whether to invest a further \$25-30M in a Phase IIb campaign for BTA798 in a single disease setting (asthma or COPD), to increase the asset's attractiveness to potential licensees.
- Additional R&D investment for BTA798 is an outcome that investors should contemplate. BTA798 has a finite patent term and can ill afford to stand still, clinically speaking. We have put through additional R&D expenses in FY11-12 for this programme and this has had an impact on both valuation and earnings estimates.
- We only carry a nominal valuation for BTA798 of ~\$5M and that is unchanged. The impact on company valuation is via the reduction in cash reserves. Our target price is reduced by 6% from \$1.80 to \$1.69 per share. Our revenue estimates have not changed in FY11 or FY12 – but an additional \$8M R&D expenses in FY11 and \$20M in FY12 reduce our EBITDA and NPAT estimates.
- Biota is a well managed drug developer but sentiment may be against the stock over the next six months, despite LANI's attractiveness. We maintain a BUY rating but warn that patience will be required and this stock is only for high-risk, high-reward investors.

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	14.4	13.1	4.1	6.7	6.2	2.5	0.0	0.0	0
2011e	-5.2	-1.2	-109.5	-70.6	15.5	-18.9	0.0	0.0	0
2012e	-18.1	-9.0	-627.4	-9.7	-9.2	-4.6	0.0	0.0	0

Biota Holdings Limited (BTA : \$0.88)

INVESTMENT FUNDAMENTALS

Yr Ending June	2008A	2009A	2010E	2011E	2012E
EPS Reported (c)	-3.7	21.7	8.0	-2.9	-10.1
EPS Normalised (c)	-2.6	12.6	13.1	-1.2	-9.0
EPS Growth (%)	N/A	575.4%	4.1%	-109.5%	-627.4%
PER Normalised (x)	-29.2	15.3	6.7	-70.6	-9.7
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	2.7	-13.0	-4.2
EV / EBITDA (x)	-8.8	10.5	2.5	-18.9	-4.6
CFPS (c)	2.7	18.4	14.1	5.7	-9.5
Price / CF	28.4	10.4	6.2	15.5	-9.2
Book Value / Share (\$)	0.4	0.6	0.6	0.5	0.4
Price / Book (x)	2.2	3.5	1.5	1.6	2.0

PROFIT & LOSS (\$m)

Yr Ending June	2008A	2009A	2010E	2011E	2012E
Sales Revenue	20.5	45.0	68.2	42.3	47.5
EBITDA	-9.4	24.0	26.1	-3.1	-17.0
Depreciation	0.9	1.2	1.4	1.4	1.5
EBITA	-10.3	22.8	24.8	-4.5	-18.5
Amortisation	1.8	3.9	9.0	3.0	1.9
EBIT	-12.1	18.9	15.7	-7.5	-20.4
Net Interest Expense	-2.8	-2.9	-2.4	-3.0	-2.8
Pre-tax Profit	-9.3	21.8	18.1	-4.4	-17.6
Tax	-2.8	3.6	3.7	0.8	0.5
Tax rate (%)	30.3%	16.7%	20.4%	-18.1%	-2.8%
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	14.4	-5.2	-18.1
Abn's / Extraord's	0.0	20.0	0.0	0.0	0.0
Reported Net Profit	-6.5	38.2	14.4	-5.2	-18.1
Revenue Growth (%)	N/A	119.0%	51.6%	-37.9%	12.3%
EBIT Growth (%)	N/A	256.2%	-16.6%	-147.5%	-173.1%
NPAT Growth (%)	N/A	380.2%	-20.7%	-136.3%	-245.7%

PROFITABILITY RATIOS

Yr Ending June	2008A	2009A	2010E	2011E	2012E
EBIT / Sales (%)	-58.8%	42.0%	23.1%	-17.7%	-42.9%
ROA (%)	N/A	69.9%	62.9%	-35.9%	-116.5%
ROE (%)	N/A	22.7%	14.4%	-5.2%	-20.4%
ROFE (%)	N/A	338.4%	223.0%	-86.1%	2,171.7

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	11.5	27.5
EBIT	-11.8	30.7	39.9	-24.2	6.2
Net Profit	-12.8	51.0	33.5	-19.1	7.0
EBIT / Sales (%)	-309.2%	74.5%	70.3%	-210.0%	22.6%

BALANCE SHEET (\$m)

Yr Ending June	2008A	2009A	2010E	2011E	2012E
Cash	60.2	86.7	90.7	98.8	79.5
Receivables	4.3	8.1	10.2	3.9	7.0
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	100.9	102.7	86.5
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	6.9	3.9	2.0
Other	5.2	1.5	1.2	1.2	1.2
Non-current Assets	24.8	16.9	15.0	12.6	11.5
Total Assets	89.3	111.6	115.9	115.3	98.0
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	-44.7	-49.9	-68.0
Minorities	0.0	0.0	0.0	0.0	0.0
Total Equity	63.3	97.0	102.6	97.4	79.3
Total Funds Employed	3.1	10.3	11.9	-1.5	-0.2

LIQUIDITY & LEVERAGE RATIOS

Yr Ending June	2008A	2009A	2010E	2011E	2012E
Net Debt (Cash) (\$m)	-60.2	-86.7	-90.7	-98.9	-79.5
Net Debt / Equity (%)	-95.0%	-89.4%	-88.4%	-101.5%	-100.3%
Interest Cover (x)	4.3	-6.4	-6.7	2.5	7.2
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	15.7	-7.5	-20.4
Dep'n and Amort'n	2.7	5.1	10.4	4.4	3.4
Net Int Rec'd (Paid)	2.8	2.8	2.3	3.0	2.8
Tax Paid	0.0	0.0	-3.7	-0.8	-0.5
Dec / (Inc) W/kg Cap	9.7	-11.3	53.7	11.0	-2.4
Other	1.4	17.0	-53.2	-0.1	0.0
Operating Cash Flow	4.8	32.5	25.2	10.1	-17.1
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	4.0	8.1	-19.4



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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