

22 July 2010

Produced by: RBS Morgans Limited

Biota Holdings

Japanese approval pending

Hold

Important: The above recommendation has been made on a 12 month view and may not suit your investment needs or timeframe. The basis it is prepared on is summarised on the last page of this report. **PLEASE CONTACT YOUR ADVISER TO DISCUSS THIS GENERAL RECOMMENDATION BEFORE ACTING ON IT.**

High Volatility

Target price

A\$1.10 (from A\$1.11)

Price

A\$0.91

Short term (0-60 days)

n/a

BTA100722

Price performance

	(1M)	(3M)	(12M)
Price (A\$)	1.20	2.12	1.63
Absolute (%)	-23.8	-57.1	-44.0
Rel market (%)	-20.4	-51.8	-48.6
Rel sector (%)	-23.5	-54.7	-47.4



Market capitalisation

A\$162.80m (US\$143.61m)

Average (12M) daily turnover

A\$2.27m (US\$2.04m)

Sector: BBG AP Pharm & Biotech
 Part of: ASX/S&P 300
 RIC: BTA.AX, BTA AU
 Priced A\$0.91 at close 21 Jul 2010.
 Source: Bloomberg

Analysts

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Despite the low quarterly Relenza numbers, our focus is on Japanese approval for the next-generation Relenza product, known as LANI, which is expected shortly. In our view, this near-term catalyst will be taken positively by the market.

Key forecasts

	FY08A	FY09A	FY10F	FY11F	FY12F
EBITDA (A\$m)	-9.78	44.3	27.4 ▼	3.45	35.8
Reported net profit (A\$m)	-6.49	38.2	15.2 ▼	0.99	25.8
Normalised net profit (A\$m) ¹	-6.49	38.2	15.2 ▼	0.99	25.8
Normalised EPS (c) ¹	-3.79	22.4	8.52 ▼	0.55	14.4
Normalised EPS growth (%)	n/a	n/a	-61.9	-93.5	2,520
Dividend per share (c)	0	0	0	0	0
Dividend yield (%)	0	0	0	0	0
Normalised PE (x)	n/m	4.07	10.7	165.1	6.3
EV/EBITDA (x)	n/m	1.72	2.7	19.6	1.3
Price/net oper. CF (x)	32.3	4.62	6.2 ▲	17.9 ▲	7.08
ROIC (%)	-93.4	869.1	112.5	-33.1	-1,329

Use of ▲ ▼ indicates that the line item has changed by at least 5%.

1. Pre non-recurring items and post preference dividends

Accounting standard: IFRS

Source: Company data, RBS Morgans forecasts

year to Jun, fully diluted

Low Relenza numbers, but well flagged

GSK reported its 2QCY10 result overnight. Relenza sales were A\$12.8m and BTA will receive a 7% royalty or about A\$0.9m. This was below our forecast of A\$2m, although the weaker numbers were expected and flagged by management. There has been press speculation that the WHO may soon call an end to the global swine flu pandemic.

Changes to forecasts

Management has now provided actual royalties from Relenza for FY10 of A\$63.7m, compared with our forecast of A\$68m (the difference relates mainly to exchange rate fluctuations). As a result, we have reduced our FY10 NPAT forecast by 10.9% to A\$15.2m. There are no changes to FY11 or FY12 forecasts.

Catalysts highlighted

As always, a focus on milestones is key in this sector. The most obvious short-term catalyst is the pending approval of LANI in Japan, which we expect shortly. However, it is difficult to predict the timing and quantum of the global licensing deals for LANI (ex Japan) and the human rhinovirus (HRV) programme. Both are expected in the next six months.

Investment view – taking a short-term view

Following changes to forecasts, our DCF valuation has reduced marginally to A\$2.20 (was A\$2.21). The key assumptions in deriving the valuation include a risk-free rate of 5.25%, WACC of 13.6% and a terminal growth rate of 3.5%. We set our target price at A\$1.10 (was A\$1.11), a 50% discount to the valuation reflecting where we believe the stock will trade on achievement of near-term milestones. We maintain a positive longer-term stance on BTA, although the market's aversion to risk is driving our view. The main downside risk to our target price includes a delay in securing a global (ex-Japan) licensing deal for LANI. The key upside risk is approval in Japan for LANI. We maintain our Hold recommendation, which we will review when we sense a change in risk appetite.

Table 1 : Key milestones to focus on

Milestone	Timing	Impact
GSK quarterly result	22 Jul 10	Achieved
Approval of LANI in Japan	2HCY10	Positive
LANI licensing deal	2HCY10	Positive
HRV licence	2HCY10	Positive

Source: Company data, RBS Morgans

BTA – financial summary

Year to 30 Jun (A\$m)	AIFRS	AIFRS	AIFRS	AIFRS	AIFRS	Closing price (A\$)	0.91	Price target (A\$)	1.10	
Income statement	2008A	2009A	2010F	2011F	2012F	Valuation metrics				
Divisional sales	41.7	80.4	69.4	46.3	57.7	Preferred methodology	DCF	Val'n (A\$)	\$ 2.20	
Total revenue	41.7	80.4	69.4	46.3	57.7	DCF valuation inputs				
EBITDA	-9.8	44.3	27.4	3.5	35.8	Rf	5.25%	10-year rate	5.25%	
Associate income	0.0	0.0	0.0	0.0	0.0	Rm-Rf	6.00%	Margin	2.0%	
Depreciation	-2.7	-5.4	-10.8	-5.1	-1.7	Beta	1.40	Kd	7.25%	
EBITA	-12.5	38.9	16.6	-1.7	34.1	CAPM (Rf+Beta(Rm-Rf))	13.6%	Ke	13.7%	
Amortisation/impairment	0.0	0.0	0.0	0.0	0.0	Equity (E/EV)	100.0%	NPV cash flow (A\$m)	305.3	
EBIT	-12.5	38.9	16.6	-1.7	34.1	Debt (D/EV)	0.0%	Minority interest (A\$m)	0.0	
EBIT(incl associate profit)	-12.5	38.9	16.6	-1.7	34.1	Interest rate	7.25%	Net debt (A\$m)	-88.8	
Net interest expense	3.2	2.9	2.6	2.7	2.9	Tax rate (t)	30.0%	Investments (A\$m)	0.0	
Pre-tax profit	-9.3	41.9	19.2	1.0	36.9	Franking credit	100.0%	Equity market value (A\$m)	394.1	
Income tax expense	2.8	-3.6	-4.0	0.0	-11.1	WACC	13.7%	Diluted no. of shares (m)	178.9	
After-tax profit	-6.5	38.2	15.2	1.0	25.8			DCF valuation (A\$)	2.20	
Minority interests										
NPAT	-6.5	38.2	15.2	1.0	25.8	Multiples	2009A	2010F	2011F	2012F
Significant items	0.0	0.0	0.0	0.0	0.0	Enterprise value (A\$m)	76.1	74.0	67.7	46.5
NPAT post abnormals	-6.5	38.2	15.2	1.0	25.8	EV/Sales (x)	0.9	1.1	1.5	0.8
						EV/EBITDA (x)	1.7	2.7	19.6	1.3
						EV/EBIT (x)	2.0	4.5	-40.9	1.4
						PE (pre-goodwill) (x)	4.1	10.7	165.1	6.3
Cash flow statement	2008A	2009A	2010F	2011F	2012F	At target price	2009A	2010F	2011F	2012F
EBITDA	-9.8	44.3	27.4	3.5	35.8	EV/EBITDA (x)	2.5	4.0	29.5	2.3
Change in working capital	8.6	-9.9	0.2	3.0	-4.6	PE (pre-goodwill) (x)	4.9	12.9	199.9	7.6
Net interest (pd)/rec	3.2	2.9	2.6	2.7	2.9					
Taxes paid	2.8	-3.6	-4.0	0.0	-11.1	Comparable company data (x)	2010F	2011F	2012F	
Other oper cash items	0.0	0.0	0.0	0.0	0.0	AcruX	EV/EBITDA	5.1	1.9	2.5
Cash flow from ops (1)	4.8	33.7	26.2	9.1	23.0	Year to 30 Jun	EV/EBIT	5.2	1.9	2.6
Capex (2)	-3.8	-0.8	-1.2	-1.8	-1.7		PE	6.2	3.7	7.3
Disposals/(acquisitions)	0.0	0.0	0.0	0.0	0.0	Pharmaxis	EV/EBITDA	-8.9	-10.4	-103.4
Other investing cash flow	0.0	0.0	0.0	0.0	0.0	Year to 30 Jun	EV/EBIT	-8.3	-9.7	-60.6
Cash flow from invest (3)	-3.8	-0.8	-1.2	-1.8	-1.7		PE	-10.5	-10.9	-65.7
Incr/(decr) in equity	-3.0	-5.1	-20.0	0.0	0.0	Per share data	2009A	2010F	2011F	2012F
Incr/(decr) in debt	0.0	0.0	0.0	0.0	0.0	No. shares	171.0	178.9	178.9	178.9
Ordinary dividend paid	0.0	0.0	0.0	0.0	0.0	EPS (cps)	22.4	8.5	0.6	14.4
Preferred dividends (4)	0.0	0.0	0.0	0.0	0.0	EPS (normalised) (c)	22.4	8.5	0.6	14.4
Other financing cash flow	0.0	0.0	0.0	0.0	0.0	Dividend per share (c)	0.0	0.0	0.0	0.0
Cash flow from fin (5)	-3.0	-5.1	-20.0	0.0	0.0	Dividend payout ratio (%)	0.0	0.0	0.0	0.0
Forex and disc ops (6)	0.0	0.0	0.0	0.0	0.0	Dividend yield (%)	0.0	0.0	0.0	0.0
Incr/(decr) cash (1+3+5+6)	-2.0	27.8	5.1	7.3	21.3	Growth ratios	2009A	2010F	2011F	2012F
Equity FCF (1+2+4)	1.0	32.9	25.1	7.3	21.3	Sales growth	92.6%	-13.6%	-33.3%	24.5%
						Operating cost growth	-30.0%	16.6%	2.0%	-48.9%
						EBITDA growth				935.9%
						EBITA growth				MISSING
Balance sheet	2008A	2009A	2010F	2011F	2012F	Operating performance	2009A	2010F	2011F	2012F
Cash & deposits	60.2	86.7	88.8	95.1	116.3	Asset turnover (%)	20.0	15.8	10.7	12.0
Trade debtors	4.3	8.1	8.6	5.7	7.1	EBITDA margin (%)	55.2	39.5	7.5	62.1
Inventory	0.0	0.0	0.0	0.0	0.0	EBIT margin (%)	48.4	23.9	-3.6	59.1
Investments	0.0	0.0	0.0	0.0	0.0	Net profit margin (%)	47.6	22.0	2.1	44.8
Goodwill						Return on net assets (%)	40.1	18.0	-1.8	28.6
Other intangible assets	12.1	8.4	2.4	0.0	0.0	Net debt (A\$m)	-86.7	-88.8	-95.1	-116.3
Fixed assets	7.5	6.9	6.3	6.4	6.4	Net debt/equity (%)	-89.4	-96.2	-101.9	-97.7
Other assets	5.2	1.5	1.5	1.5	1.5	Net interest/EBIT cover (x)	-13.3	-6.4	0.6	-11.9
Total assets	89.3	111.6	107.6	108.7	131.4	ROIC (%)	869.1	112.5	-33.1	-1329.3
Short-term borrowings	0.0	0.0	0.0	0.0	0.0	Internal liquidity	2009A	2010F	2011F	2012F
Trade payables	12.0	5.6	6.3	6.5	3.3	Current ratio (x)	6.5	6.4	6.5	10.1
Long-term borrowings	0.0	0.0	0.0	0.0	0.0	Receivables turnover (x)	13.0	8.4	6.5	9.0
Provisions	0.0	0.0	0.0	0.0	0.0	Payables turnover (x)	4.1	7.0	6.7	4.5
Other liabilities	13.9	9.0	9.0	9.0	9.0					
Total liabilities	26.0	14.6	15.3	15.4	12.3					
Share capital	159.1	154.6	149.8	150.8	176.6					
Other reserves	1.4	1.5	1.5	1.5	1.5					
Retained earnings	-97.3	-59.1	-59.1	-59.1	-59.1					
Other equity	0.0	0.0	0.0	0.0	0.0					
Total equity	63.3	97.0	92.3	93.3	119.1					
Minority interest										
Total shareholders' equity	63.3	97.0	92.3	93.3	119.1					
Total liabilities & SE	89.3	111.6	107.6	108.7	131.4					

Source: Company data, RBS Morgans forecasts

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