

Date of issue

15.02.07

Company Update

INVESTMENT DATA

Share Price	\$0.60
Issued Capital	
Ordinary Shares	255.0m
Options	9.5m
Fully Diluted	264.5m
Market Capitalisation	\$158.7m
52 Week Low/High	\$0.195 / \$0.61
Valuation	\$0.91

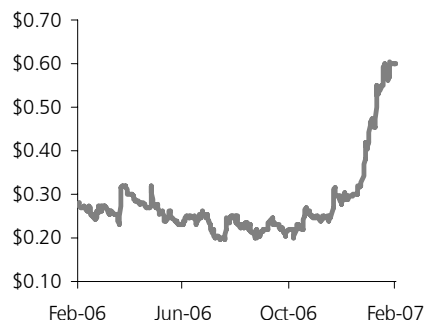
Top 20 shareholders as at 15 Aug 2006 held 64% of total shares on issue.

Year end Jun 06a 07f 08f 09f

Revenue	\$m	0.7	0.0	0.0	0.0
EBITDA	\$m	-11.8	-28.6	-28.6	-28.7
NPAT	\$m	-17.8	-27.5	-28.3	-26.8
EPS (adj)	¢	-12.9	-24.3	-11.1	-10.5
EPS growth	%	na	na	na	na
PER	x	na	na	na	na

Data is normalised and fully diluted.

Share price chart: AVX



Avexa (AVX)

Buy 2

On track for phase III trials

Signs manufacturing alliance

AVX has signed a manufacturing agreement with France-based Novasep for the production of ATC for phase III clinical trials and commercial sales should ATC gain approval for sale. Novasep's expertise in chemical and biochemical synthesis can help AVX potentially optimise the production of the API (active pharmaceutical ingredient) for ATC.

Ready for phase III trials

The manufacturing agreement implies further confidence from AVX that its lead HIV drug candidate, ATC, will be successful in phase IIb clinical trials and progress towards the phase III program is likely to occur during 2H 2007.

Potential for patent protection on manufacturing processes

Given Novasep's expertise in purification processes, we expect that the two companies could potentially patent the improved manufacturing processes. This would extend ATC's patent life as the IP protection would restrict potential generics.

Earnings estimates unchanged

Our earnings estimates remain unchanged as we have incorporated manufacturing costs for the phase III trial into clinical development expenses. The phase III trial, which is likely to involve 800 patients at multiple sites worldwide, is estimated to cost \$50m. This has been considered in our assumptions. The trial duration is expected to be approximately 18-24 months with AVX filing for approval in 2010.

Re-iterate Buy 2 recommendation based on probability-weighted \$0.91 valuation

We re-iterate our Buy 2 recommendation based on the near-term (early Mar) release of phase IIb trial results for ATC. In our view, the recent share price ramp does not fully reflect expectations of these results should they be positive. Our current valuation of \$0.91 assumes a 50% probability of success which we believe to be conservative given anti-infective drugs like ATC have the highest rate of success in drug development. On the basis of today's announcement regarding the company's manufacturing preparations, we are confident that AVX will release a positive phase IIb result. This would lead us to increase our probability of success and therefore, an increase to our valuation.

Linda Ong

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Company (AVX)					Share price: \$0.600				
As at	15/02/07	Recommendation:			BUY 2	Market cap (\$m):			\$158.7m
Income Statement					Valuation Data				
Year end June 30	2006A	2007F	2008F	2009F	Year end June 30	2006A	2007F	2008F	2009F
Revenue	\$0.74m	\$0.00m	\$0.00m	\$0.00m	Adjusted net profit	-\$17.83m	-\$27.50m	-\$28.26m	-\$26.76m
EBITDA	-11.78	-28.56	-28.57	-28.68	Adjusted EPS*	-12.9c	-24.3c	-11.1c	-10.5c
EBITA	-11.83	-28.56	-28.57	-28.68	EPS growth	na	na	na	na
Amortisation	-6.00	0.00	0.00	0.00	P/E ratio	na	na	na	na
EBIT	-17.83	-28.56	-28.57	-28.68	OpCFPS (excl. abnormals)	-1.4c	-21.3c	-9.0c	-10.5c
Interest	0.00	1.06	0.32	1.92	Price/OpCFPS	-41.8x	-2.8x	-6.6x	-5.7x
Abnormals	0.00	0.00	0.00	0.00	DPS	0.0c	0.0c	0.0c	0.0c
Pre-tax profit	-17.83	-27.50	-28.26	-26.76	Yield	0.00%	0.00%	0.00%	0.00%
Tax	0.00	0.00	0.00	0.00	EV/EBITDA	na	na	na	na
Reported net profit	-17.83	-27.50	-28.26	-26.76	EV/EBITA	na	na	na	na
Adjusted net profit	-17.83	-27.50	-28.26	-26.76	* FY05 Proforma				
Proforma Adjusted net profit									
(adjusted net profit = pre-tax profit before abnormals and goodwill minus tax at marginal rate)									
Cashflow									
Year end June 30	2006A	2007F	2008F	2009F					
Reconciliation									
Net profit	-\$17.83m	-\$27.50m	-\$28.26m	-\$26.76m					
Amortisation	6.00	0.00	0.00	0.00					
Depreciation	0.05	0.00	0.00	0.00					
Change in working capital	8.94	3.44	5.25	0.00					
Other	0.00	0.00	0.00	0.00					
Net operating cashflow	-2.84	-24.05	-23.01	-26.76					
Investing cashflow									
Sale/purchase of PPE	-0.14	0.00	0.00	0.00					
Payments for businesses	0.00	0.00	0.00	0.00					
Investments & others	0.00	0.00	0.00	0.00					
Proceeds from sale of PPE/other	0.00	0.00	0.00	0.00					
Net investing cash flow	-0.14	0.00	0.00	0.00					
Financing activities									
Issue of shares	14.39	9.83	53.57	0.00					
Buy backs	0.00	0.00	0.00	0.00					
Dividends paid	0.00	0.00	0.00	0.00					
Debt	-0.85	0.00	0.00	0.00					
Others	0.00	0.00	0.00	0.00					
Net financing cash flow	13.54	9.83	53.57	0.00					
Effects of exchange rate changes	0.00	0.00	0.00	0.00					
Net change in cash held	10.55	-14.23	30.56	-26.76					
Balance Sheet									
Year end June 30	2006A	2007F	2008F	2009F					
Assets									
Cash assets	\$20.23m	\$6.00m	\$36.56m	\$9.80m					
Receivables	0.03	0.00	0.00	0.00					
Inventories	0.00	0.00	0.00	0.00					
Other	0.11	0.26	0.46	0.46					
Total current assets	20.37	6.26	37.02	10.26					
Plant and equipment	0.22	0.22	0.22	0.22					
Non-current receivables	0.00	0.00	0.00	0.00					
Intangible assets	0.00	0.00	0.00	0.00					
Other / financial assets	0.00	0.00	0.00	0.00					
Deferred tax assets	0.00	0.00	0.00	0.00					
Total non-current assets	0.22	0.22	0.22	0.22					
Total assets	20.59	6.48	37.24	10.48					
Liabilities									
Short term debt	0.00	0.00	0.00	0.00					
Payables	3.36	6.55	11.50	11.50					
Current tax liabilities	0.00	0.00	0.00	0.00					
Provisions	0.28	0.65	1.15	1.15					
Other liabilities	0.00	0.00	0.00	0.00					
Total current liabilities	3.64	7.20	12.65	12.65					
Long term debt	0.00	0.00	0.00	0.00					
Payables	0.00	0.00	0.00	0.00					
Provisions	0.03	0.03	0.03	0.03					
Total non-current liabilities	0.03	0.03	0.03	0.03					
Total liabilities	3.67	7.23	12.68	12.68					
Net assets	16.92	-0.75	24.56	-2.20					
Equity									
Contributed equity	48.16	57.99	111.56	111.56					
Reserves & outside equity	0.00	0.00	0.00	0.00					
Retained earnings	-31.24	-58.74	-87.00	-113.76					
Total equity	16.92	-0.75	24.56	-2.20					
Diluted shares on issue	197.85	254.99	326.42	326.42					
Weighted ave diluted shares	197.85	113.01	254.99	254.99					

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