

Seeking Alpha

2 Top Biotech Plays With Safe Upside

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ImmunoCellular is a clinical stage biotech firm that develops and markets new therapeutics that harness the immune system to treat cancer. This is the only major company working in this phase that specializes in targeting cancer stem cells (CSCs). Accordingly, the upside in the pipeline is significant - investment research firm Zacks even [found](#) a price target more than four times current market value. Fortunately, this upside also comes with the security of low costs and promising results.

The Fight Against Brain Cancer

Glioblastoma multiforme is considered to be the most aggressive and, unfortunately, most common type of brain cancer. With a median survival time of a little over a year, prognosis is very poor even with standard care. There has been a dearth of significant treatments due to complications surrounding tumor cell resistance and brain vulnerability.

ImmunoCellular's blockbuster-to-be, ICT-107, may just be the best answer in development. Featured as one of the "100 Great Investigational Drugs," this cancer vaccine fights against glioblastoma by a three step process: (1) extract dendritic cells, (2) add tumor-associated antigens to them, and (3) inject them back into the patient to activate the immune system. Thus far, the vaccine has shown incredible results.

In the Phase I study, overall survival was 80% after 2 years and 55% after 3 years when the vaccine was applied. This compares to corresponding figures of 26.5% and 16% for standard care - a statistically meaningful difference. PFS after 2 years with use of ICT-107 was also 49.2% versus 10.7%. After four years, 19% of the patients using the drug were disease-free. The Phase II double-blind study is currently underway, and management will be announcing interim results likely at the end of 2012. The results thus far are nothing short of breakthrough.

Furthermore, from a competitive point of view, ICT-107 is able to be produced cheaper and with better logistics than analogous drugs. For example, Bristol-Myers Squibb's ([BMY](#)) Ipilimumab treatment for melanoma prices at around \$30,000 per dose (see below for more). ICT-107 is anticipated to be available at a significantly lower cost and with less potential side effects.

And then there is the ImmunoCellular's solid antibody program, which is likely to gain partnerships due to the safe upside. ICT-121 holds promise in a variety of cancers, including pancreatic, brain, lung, colon, melanoma, renal, and breast forms. Meanwhile, ICT-109 has demonstrated solid preclinical efficacy in treating some pancreatic and lung cancers.

Bristol Myers ([BMY](#))

Bristol is a larger biotech firm that I earlier pitched as a safe investment [here](#). My overall thesis was that despite what many argue, Bristol merits its premium to peers due to its solid fundamentals and promising developments.

In particular, the healthcare company's drug YERVOY (Ipilimumab) has yet to be fully appreciated. It treats metastatic melanoma and was recently launched in Europe to much success. Accounts have accelerated month over month, shocking many investors. The drug is also undergoing clinical trials for different applications - particularly in treating forms of lung and prostate cancer. On an even more upside level, ELIQUIS is showing strong Phase III results and demonstrated statistical superiority to warfarin. Thus, this remains a major catalyst for the firm going forward.

For risk-averse investors, Bristol is also one of the safest stocks out there. It has the strongest pipeline in its field and has achieved an unparalleled economy of scale. Consequentially, the firm has low cost of goods and high gross profits that I anticipate expanding even more in the future over and above expectations. At the same time, the firm has plenty of upside due to its leading expenditures on R&D, which have almost always delivered in the past. The company may be rated a "hold," but its beta of 0.52 and sizable dividend yield of 4.2% make it perfect for income investors who want exposure to high growth areas.

In my view, consensus estimates for EPS are much too low. Overall, analysts model EPS rising by 6.5% to \$2.30 in 2011, declining by 12.6% in 2012, and then remaining flat in 2013. Assuming the multiple remains the same at 16x and a bearish EPS of \$1.95, the low-end intrinsic value of the stock is \$31.20. While this currently implies a small margin of safety, I expect EPS to go up as management beats consensus. Over the last 12 months, the stock has appreciated by nearly a quarter due to strong fundamentals correcting the market's conservatism. Third quarter results continued this trend with impressive net sales of \$5.3B, growing by 11% over last year. Analysts have accordingly revised estimates up versus down 12 to 3.

Disclosure: I have no positions in any stocks mentioned, but may initiate a long position in IMUC.OB, BMY over the next 72 hours.