Investors Alley

December 2014 Vol. 1 Issue 6

The Turnaround Stock Report

Playing the Upside of Oil's Collapse

Fellow Investor,

The market finally woke up to some of the negative implications from the deep and sudden drop in oil prices last week. After rising for the previous six weeks as crude was pulling back, equities turned in a dismal performance to end down since our last commentary was published for the Turnaround Stock Report. The Dow Jones Industrials Average posted its worst weekly performance since November 2011 and the S&P 500 had its weakest week since May 2012.

In This Issue

Investors should continue to watch the oil markets closely. Although there are myriad benefits to falling oil and gasoline prices such as additional discretionary income and improved consumer confidence, if oil continues to slide at its recent pace the market is likely to remain very volatile.

Domestically, the fall in energy has caused exploration and production companies to radically cut their capital expenditure budgets for the New Year, something that should continue. This will deprive the domestic economy of tens of billions of dollars of investment in 2015. This should also greatly curtail or even cut job growth in the oil and gas sector, one of few sources of high paying jobs in what remains the weakest post war recovery on record. The fall could also roil the high yield credit markets given the energy space has accounted for over 15% of overall bond issuance in what has been a very robust year for this sector of the credit markets.

Finally, although the fall in oil prices is starting to cripple the economies of the some of the bad actors on the world stage like Russia, Iran and Venezuela the decline is also hurting the economies of our friends. Particularly worrying in the impact to oil exporters Canada and Mexico, which first and third largest trading partners of the United States.

I also remain concerned about Europe where growth is barely coming in above stall speed. The stock market in Greece hit 27 year lows last week on the possibility of snap elections which could see the radical left party Syriza take power. Syriza has been an advocate for withdrawing from the European Union, an event that would surely rock global equity markets.

Finally, China needs to remain a watch item due to possible slowing growth there. November industrial production came in under expectations last week and falling oil and commodity prices could be an indicator that the Middle Kingdom's economy is weaker than what is being reported.

Although the market is likely to remain volatile until oil prices stabilize the recent decline in equities presents some new investment opportunities. In this month's issue of the Turnaround Stock Report we profile a railcar manufacturer whose stock has been punished unfairly due to worries around falling oil prices. Our second selection is a small biotech concern that still has not recovered from a deep swoon that swept across the biotech sector in early March of this year but should see brighter days in 2015.

I'm always here for you. If you have a question, compliment, complaint, comment or just want to say "hi" you can reach me at bret.jensen@investorsalley.com.

Bret Jensen
Editor
The Turnaround Stock Report

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Greenbrier: A Major Buying Opportunity from a "Baby Thrown Out with the Bath Water"

The deep plunge in oil prices has been the key market theme over the past couple of months. The almost $50 a barrel share decline in oil prices has created many winners and losers in the markets. Transports like Airlines have soared while the collapse in crude has decimated much of the exploration and production and energy services companies.

The fall in energy prices has also spread to other areas of the market such as engineering and construction firms and even aerospace manufacturers like **Boeing (NYSE: BA)**. Some stocks have quite frankly been unfairly punished as investors have bailed on anything connected with the oil and gas industry. One sector of the market that has been hit by a shortsighted overreaction is railcar manufacturers with all names in this space being taken out to the woodshed and beaten like a rented mule. This is creating some great buying opportunities in the area, none more so than **Greenbrier Companies (NYSE: GBX)** which manufacturers, leases and repairs a variety of different types of railcars.

The stock of Greenbrier has fallen more than $30 a share or some 40% over the past three months on irrational fears that the fall in oil prices will significantly impact its business fundamentals. This is a huge buying opportunity as if anything Greenbrier's business drivers have actually improved over the past ninety days.

The market is obsessed that the recent fall in oil prices will completely curtail demand for new oil tank cars. Although exploration and production companies are cutting capital expenditures, there is little doubt than domestic oil production will continue to grow in 2015 albeit at a slower rate than in previous years.

The amount of oil transported via rail will also continue to grow. Credit is likely to dry up for huge capital projects like pipelines cost hundreds of millions or even billions of dollars to build. These projects also face increasing environmental opposition which has prevented the approval of the Keystone pipeline for six years.

Railcars, in contrast, are relatively minor purchases at less than $200,000 apiece. More importantly, they are bought by railroads that are flush in profits or leased out by manufacturers or other leasing entities. No credit concerns will apply in this space.

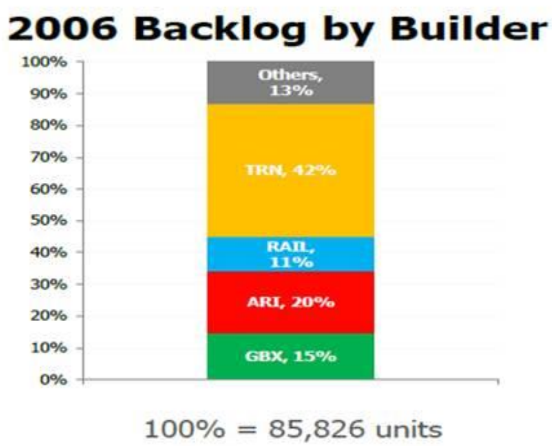
The company put a transformation strategy in place a few years ago which remains firmly in place and is improving margins and earnings volatility. This plan consists of Greenbrier improving diversification by growing its repair and leasing businesses, greater manufacturing efficiencies, improving free cash flow and decreasing earnings volatility. Let's take a look at the overreaction in the market and the core business drivers for Greenbrier.

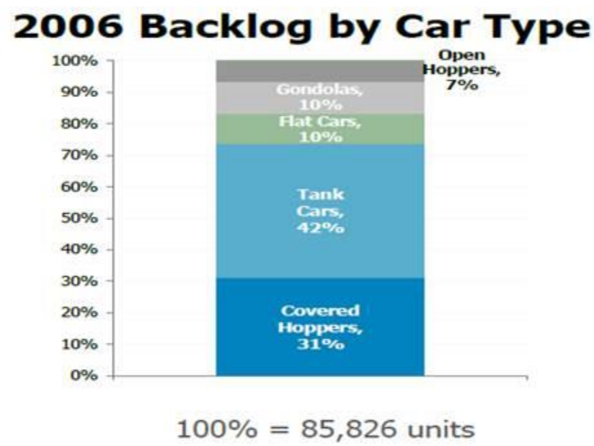
Overreaction:

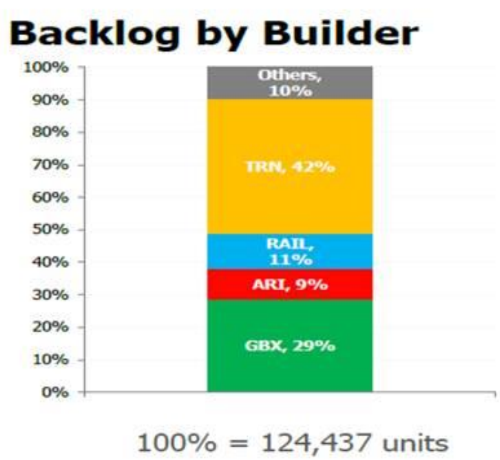
I read dozens of earnings call transcripts in any given month, it is hard to find a more positive quarterly call than the one that commenced after the last strong quarter reported by Greenbrier. I could fill up the next three pages with all the positive commentary around the company's results and business prospects.

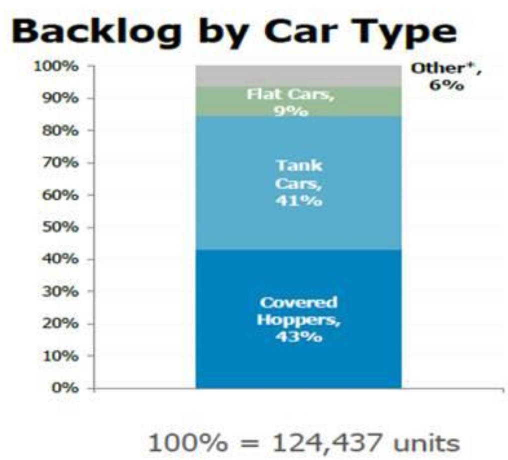
I will only pick out a couple of snippets its CEO offered investors on last quarter's conference call. These include "Markets and businesses that have been underperforming for the past 2 years are all recovering such as repair, double-stack, forest products and marine. All of this provides Greenbrier strong tailwinds in addition to strong markets, unlike anything we have seen in recent years and perhaps the strongest in our history" and "Greenbrier's prospects are strong for continuing to improve margins and operating efficiencies while bolstering strong cash flow".

Consensus earnings estimates for both FY2014 and FY2015 have gone up considerably even as Greenbrier's stock price has cratered. Three months the consensus estimates called for Greenbrier to earn $4.12 a share in FY2014 and $4.69 a share in FY2015. The current consensus calls for the company to make $4.49 a share in profits this fiscal year and a whopping $5.39 a share in FY2015. Rarely do you see such a divergence in stock price and earnings estimates. To put the earnings power of Greenbrier in perspective, the company earned just $3.07 a share in FY2013.









Backlog Growth:

One of the most important things that investors should know about Greenbrier and the rail and tank car manufacturing sector in general is the following:

- All manufacturing capacity throughout the space is already committed through 2016.
- All companies in the sector will be working off existing orders for the next two years even if they don't receive any additional orders.

Specifically to Greenbrier, backlog continues to grow. At the end of the last completed quarter, Greenbrier had an impressive $3.4 billion in order backlog – the company's market capitalization is just a little over $1.2 billion to put that in perspective. In addition, the company has added over $1 billion in new orders since the last quarter closed.

The company is more than just an oil tankcar manufacturer. The company manufactures cars to carry autos, fertilizer, agricultural commodities, chemicals and even frac sand. At the end of the last quarter, less than 40% of the company's order backlog was in oil tankcars – a business the company did not even enter until 2008. In the over $1 billion in orders since the last quarter, only 30% is for oil tankcars as the company is being buoyed by an improving economy which is resulting in additional orders for cars to carry autos, chemicals and agricultural commodities.

Greenbrier continues to take market share from the biggest firm in the industry leader, **Trinity Industries (NYSE: TRN)**. Greenbrier has one third of the backlog within the industry currently, a huge improvement since the last peak in the railcar space. In addition, Trinity recently lost an over $500 million judgment due to poorly designed highway guardrails which has caused several deaths across the nation. The company is appealing but this litigation is likely to tie up some of the company's focus and attention for years.

Other Positive Catalysts:

New safety regulations to improve the survivability of tankcars in crashes is going to buoy the demand for Greenbrier's new much safer oil tankcar design as well as demand for Greenbrier's repair and retrofit business. Some 170,000 oil tank cars will need to be retrofitted or replaced over the next several years due to new regulations. Given the ideological bent of the current administration these regulations could creep into other transported materials including chemicals, pesticides and herbicides, all of which will be good for this part of Greenbrier's business.

In addition, steel prices have plunged over the past year. Iron ore fetched some $135/ton a year ago but is currently going for $70/ton; this should boost margins as steel prices are a major operating cost for this manufacturer.

Finally, the company is ramping up its leasing business. This is resulting in some loss of short term cash flow as Greenbrier holds on to a certain portion of its new railcars. However, this temporary hit to cash flow will be more than compensated for my greater earnings visibility as lease payments act as predictable annuities to the company.

Summary:

The huge decline in Greenbrier's stock over the past three months is a major buying opportunity. The company has already exceeded the 13.5% operating margin goal it set for itself two years ago. In addition, Greenbrier has over a half a billion dollars in credit availability and a very solid balance sheet. (See top of next page for chart.)

More importantly, earnings estimates and order backlog have continued to go up even as the shares have staged a significant decline. The company continues to gain market share, will benefit greatly by new safety rules as well as improving economic fundamentals. The shares traded near $80 before this latest hiccup. That should serve as reasonable bogey once investors realize that the plunge in oil prices has little to no impact to Greenbrier's long term business fundamentals. This would also price the shares at just over 14 times forward earnings, a discount to the overall market multiple of 16 times forward earnings. The stock currently goes for $45 a share. Our price target represents an over 75% upside from the current price level. The stock also pays a 1.4% dividend yield.

Recommendation: Buy GBX up $50, and sell at $80 a share.

Position: Long GBX

Halzozyme Therapeutics: A Good Bet to Get Back to Previous Highs

Our second selection this month is **Halozyme Therapeutics (Nasdaq: HALO).** Halozyme is a small biopharma play with a $1 billion market capitalization. Biotech and biopharma have been fascinating spaces this year and have yielded some of my best returns so far in 2014 as anyone that purchased **Avanir Pharmaceuticals (Nasdaq: AVNR)** in the inaugural issue of Small Cap Gems knows.

Both sectors were crushed in a six week sell-off triggered in early March that swept over the entire biotech/biopharma complex. Interestingly almost all the large cap stocks like **Gilead Sciences (Nasdaq: GILD)** soon fully recovered from their plunge to hit new all-time highs by summer. Small biotechs and biopharma firms in contrast are still down substantially overall from their highs earlier in the year. This divergence offers opportunity, especially as performance in this space has perked up over the past month or two.

Halozyme is a San Diego-based biopharma company that develops human enzymes to enable or enhance subcutaneous drug delivery of biological drugs. As can be seen from the chart above, Halozyme sold for nearly $18 a share before the big biotech plunge in March. The stock has spent the last six months or so in a relatively narrow price range of $8 to $10 a share. Now is a good time to start to build a position in this promising biopharma near the bottom of that recent range.

The value proposition for Halozyme consists of a successful platform that has delivered successful candidates in partnerships with major pharma players and an early stage candidate to treat pancreatic cancer. Let's take a look at both parts of Halozyme's potential catalysts.

Enhanze® Platform:

Halozyme has a hyaluronidase enzyme platform whose trademark name is Enhanze®. This platform has delivered four drugs to market as of this time. One product (Hylenex) is wholly owned and marketed by Halozyme. The other three products are marketed by their partners. These include Herceptin SC and MabThera SC which is marketed by partner **Roche (OTCQX: RHHBY)** and HyQVia which is distributed by **Baxter (NYSE: BAX).** All of these partnered compounds are currently being distributed in Europe only while Hylenex is being distributed in the United States. (See chart on next page.)

(hyaluronidase human injection)		absorption of other injected drugs	
PEGPH20	Oncology	Pancreatic Cancer (202)*	
PEGPH20	Oncology	Pancreatic Cancer (SWOG)**	
Hylenex – Insulin Pumps (CSII market)	Endocrinology	Diabetes	
Analog Insulin-PH20 (pen market)	Endocrinology	Diabetes	
HTI-501***	Dermatology	Aesthetics	
COLLABORATION PRODUCTS AND PRODUCT CANDIDATES			
Roche (up to 8 potential targets)			
Herceptin® SC****	Oncology	Breast cancer	EU Approved
MabThera® SC****	Oncology	Non-Hodgkin's lymphoma	EU Approved
Pfizer (up to 6 potential targets)	Primary & Specialty Care	4 specified including PCSK-9 2 pending	
Baxter			
HYQVIA (Gammagard with rHuPH20)	Immunology	Primary immunodeficiency	U.S. & EU Approved

* Investigated for use with gemcitabine and nab-paclitaxel (ABRAXANE).
** Investigated for use with FOLFIRINOX.
*** Clinical study conducted in Mexico, U.S. IND has not been filed.
**** Filed in other selected countries around the world. Not filed in U.S. and Japan.

This platform should deliver many more drugs with partners over the next few years. Roche's agreement with Halozyme calls for up to eight products and the company has an agreement with **Pfizer (NYSE: PFE)** to develop up to 6 drug candidates for potential commercialization over the next few years. Halozyme receives milestone payments, license fees, and mid-single digit royalties on these types of partnered drugs.

Herceptin and Rituxan (known as MabThera in Europe) are widely used in cancer therapies with annual sales each in the $7 to $8 billion range. Both therapies are administered by intravenous infusion over several hours. The patent in Europe for MabThera expired in late 2013 and the Herceptin patent expired in 2014 in Europe. By partnering with Halozyme's Enhanze® platform Roche is using life cycle management to extend these blockbusters. Halozyme has been able to formulate both drugs for subcutaneous delivery rather than IV.

If Roche can use this method to capture just $1 billion in sales for each drug in Europe alone, Halozyme's mid-single digit royalty could easily amount to over $100 million annually with further upside as distribution moves on to other major markets such as Latin America. There is less urgency to garner approval in the United States for these drugs since the patent expiry here for Rituxan is 2018 and 2019 for Herceptin.

The FDA approved HyQvia a few months back. This is Baxter's subcutaneous treatment for adult patients with a primary immune deficiency. HyQvia consists of immunoglobulin with Halozyme's recombinant human hyaluronidase. Peak sales are projected to come in just under $1 billion a year annually. Given the royalty structure, Halozyme could garner between $30 million and $50 million a year as these sales expand. The company's propriety product Hylenex is bringing in just over $3.5 million in quarterly sales of the last quarter.

Given the growth prospects, pipeline and partnerships around this platform, Enhanze® by itself is worth more than the $1 billion market capitalization of the company currently in my opinion as the platform is now well established and beginning to generate real revenues.

PEGPH2O:

Another potential major catalyst that investors are basically getting for free at these price levels is PEGPH20 which is a drug targeted at pancreatic cancer. This very lethal form of cancer is diagnosed in just over 45,000 people in the United States annually with almost 40,000 deaths caused by pancreatic cancer in any given year. A person's chances of developing this form of cancer over their lifetime are around 1 in 70.

PEGPH20 is Halozyme's pegylated hyaluronidase drug candidate administered with gemcitabine. The company currently has a small early stage study with some 24 late stage cancer patients being treating for this disease. Full results will be presented at a healthcare conference in San Francisco in mid-January. The company also plans to start an early stage study for use against small cell lung cancer this month.

The early data showed remarkable efficacy in the small cohort of patients. Early hints of the drug's efficacy drove Halozyme's stock price to $18 a share earlier in the year before the big sell-off that cratered the entire biotech/biopharma space in early March. In addition, a clinical hold was placed on the drug due thromboembolism concerns in early April.

Thromboembolism is the formation in a blood vessel of a clot (thrombus) that breaks loose and is carried by the blood stream to plug another vessel. These concerns have been addressed and the hold was removed two months later.

The stock has yet to recover from these two events earlier in the year presenting investors an opportunity to get in at less than half the price of the stock in March. Based on the data already released this drug should have a good probability of moving on to further trials which could trigger a nice rise in the underlying shares. In addition this drug targets hyaluronic acid, a substance which is found at high levels in several types of tumors and serves to enhance tumor growth as well as provide a shield against chemotherapy. If successful, this drug could be applied to other forms of cancer, expanding its potential base of treatable population and greatly enhancing the drug's possible value.

Pancreatic cancer is just the first target for this potential blockbuster. Halozyme has received Fast Track and Orphan Drug designations from the FDA for PEGPH20 for the treatment of pancreatic cancer which is promising.

Summary:

As can be seen above, Halozyme has plenty of possible catalysts and potential "shots on goal". The company should garner some $100 million via royalty payments, license fees and milestone payouts in 2015. These revenue streams should do nothing but increase in the years ahead as revenues ramp up from existing products and as new compounds are developed and come on line.

I expect the company to post a small loss in 2015 but given its pipeline profits should be forthcoming in the years ahead. The company has some $80 million in net cash on its balance sheet which should get it through to when it produces positive free cash flow.

The presentation of PEGPH20 a month from now could also be a major catalyst and as the drug moves on to later stage trials. Insiders seem positive on the stock as they bought almost $700,000 in new shares in mid-September.

Given its pipeline, increasing revenue streams and partnerships with several major players within the pharma space I would not be surprised at all if the company receives a lucrative buyout offer at some point in the foreseeable future.

I hesitate to put any price target on the shares given the company's potential and it current undervaluation. Our risk mitigation strategy will remain just as it is on numerous other plays in this speculative space. If catalysts trigger a rally taking Halozyme back to previous levels of $18 a share, I will recommend subscribers sell half of their position and let the rest ride on the house's money.

Recommendation: Buy HALO up to $10 a share; sell half if $18 a share price target is achieved.

Position: Long HALO

Portfolio Update

As noted in this month's market commentary on page 1 the plunge in oil prices was the key driver of the markets over the past month. The fall has crushed most of the exploration and production concerns as well as energy services companies.

If there is a silver lining to the impact to our holdings it was **Chesapeake Energy (Nasdaq: CHK)** got some $5.4 billion in proceeds for non-core assets right before the big decline in crude. This is a much better price than would currently be available. This sale also improved Chesapeake's balance sheet tremendously. Unfortunately the expected credit rating upgrades that would be forthcoming due to that event have been postponed until the oil markets stabilize.

The other parts of the portfolio had better months than anything connected with energy prices. The deep fall in gasoline prices is starting to shift sales of new vehicles over to trucks and SUVs. These two high margin vehicle segments now account for 47% of new car sales domestically. This higher margin mix is going to be very good for the profits of automobile manufacturers including **General Motors (NYSE: GM)** which was added to the portfolio in our November issue.

DynaVax Technologies (Nasdaq: DVAX) had a good month and its stock is up approximately 10% since our last update. The company announced it is starting a Phase 2A trial for a novel compound for the treatment of asthma in conjunction with **AstraZeneca (NYSE: AZN)** which is funding the trial. DynaVax will receive a milestone payout once the trial commences and could receive a total of $100 million in milestone payments should the drug progress into a successful approval by the FDA. This is the result of recent successful renegotiation with AstraZeneca. DynaVax will also receive a royalty stream if the drug is eventually brought to market.

Not much to report on either **AEGON N.V (NYSE: AEG)** or **Zogenix (Nasdaq: ZGNX).** I am hopeful the European Central Bank will engage in some further quantitative easing sometime in the first quarter which will boost the prospects and sentiment on AEGON.

This month we diversify the portfolio further by adding another industrial concern and biotech entity that are currently undervalued by the market.

Current Portfolio

Company	Entry Date	Entry Price	Recent Price	Buy Up To	Target Price	Returns
Greenbrier Cos. (GBX)	12/17/14	$8.65	$8.65	$10.00	$18.00	N/A
Halozyme Thera. (HALO)	12/17/14	$46.51	$46.51	$50.00	$80.00	N/A
Zogenix (ZGNX)	11/18/14	$1.24	$1.24	$1.75	$4.00	-7.3%
General Motors (GM)	11/18/14	$32.27	$32.27	$34.00	$47.50	-3.5%
Warren Resources (WRES)	10/15/14	$3.37	$2.99	$4.50	$7.00	-39.4%
Dynavax Technologies (DVAX)*	10/15/14	$14.30	$14.67	$17.50	$30.00	5.7%
Chesapeake Energy (CHK)	09/15/14	$25.05	$23.06	$27.00	$33.00	-25.4%
AEGON N. V. (AEG)	08/14/14	$7.74	$7.80	$9.00	$15.00	-3.1%
Hercules Offshore (HERO)	07/18/14	$4.01	$1.51	$4.25	$6.00	-71.1%
Emerald Oil (EOX)	07/18/14	$7.56	$2.65	$8.00	$12.00	-84.4%

Notes:

Entry price is determined by the last "Close" price at the closing of the market on the day before publication.

Recent price is determined by the last "Close" price at the closing of the market on the day before publication; most recent update: 12/17/14.

Returns data represents share price appreciation or depreciation between entry price and recent price.

* Dynavax did a 1/10 split on 11/05/14 thus the original entry price of $1.43 has been adjusted to $14.30 to reflect current pricing level comparisons.

This is not real-time data and should not be interpreted as such.