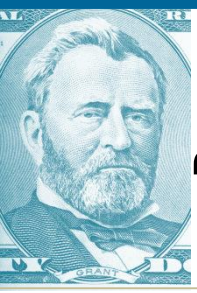

Trump Biotech Special: A $7 Stock with "Yuge" Potential

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Xenon Pharmaceuticals: Vastly Undervalued With “Yuge” Potential

It seems appropriate after all but secured the Republican nomination to highlight a small biotech stock named **Xenon Pharmaceuticals (NASDAQ: XENE).** Like the Donald’s current wife, Xenon comes from outside the United States and is based in Canada. It has multiple “shots on goal”, plenty of cash on the balance sheet, and a recent analyst upgrade. As Mr. Trump would say, it has “Yuge” potential. It also could flame out and ultimately end up in bankruptcy if trials do not work out; like most small developmental concerns in this sector and something that would not be uncharted territory for Mr. Trump as well.

The shares are giving aggressive and risk-oriented investors a great entry point after being swept down in the huge bear market that descended over the entire biotech sector. The stock also looks like it has built technical support at these levels. Let’s take a look at this high risk/high reward small cap that currently goes for just under $7.00 a share.

Company Overview:

Xenon is a clinical-stage biopharmaceutical company focused on discovering and developing a pipeline of differentiated therapeutics for orphan indications that they intend to commercialize on their own for smaller indication. For larger market indications Xenon intends to partner with global pharmaceutical industry leaders. The company has built a core platform, which is called Extreme Genetics®, enabling the discovery of validated drug targets by studying rare human diseases with extreme traits, including diseases caused by mutations in ion channels, known as channelopathies. This integrated platform has a full complement of in-house capabilities for human genetics and small molecule drug discovery, and for pre-clinical and clinical development.

The company has much of what I look for before making a small investment in this volatile area of the market. It has partnerships with larger biopharma firms which should continue to provide upfront and milestone payments to fund development and then long-term royalty streams for drugs that successfully go through the approval process. At the current time Xenon has a market capitalization just north of $100 million.

Product Portfolio and Pipeline:

The company has one approved product on the market named Glybera. Glybera is a gene therapy approved in the European Union in October of 2012 for the treatment of a subset of patients with the orphan lipid disorder LPLD. Specifically, it is intended to treat LPLD in patients with severe or multiple pancreatitis attacks, despite dietary fat restrictions. LPLD is a severe metabolic disease of elevated blood triglycerides resulting in pancreatitis and in some cases, death. Glybera was developed by Xenon's licensee, **uniQure (NASDAQ: QURE).** In July 2013, uniQure announced that it had entered into a partnership with Chiesi Farmaceutici S.p.A., or Chiesi, for the commercialization of Glybera in Europe and more than a dozen other countries including Brazil, China, Mexico and Russia. Chiesi has sole control over commercialization in Europe. From what I read, Chiesi might try to get Glybera into the U.S. market in 2018. Since Xenon receives mid-single digits royalties on Glybera, it is not the reason to invest in the company.

The developing pipeline of Xenon is much more intriguing. These are the highlights:

XEN801 - A novel, topically-administered selective small-molecule inhibitor of the enzyme known as stearoyl-Co-A desaturase-1 or SCD1, an enzyme involved in lipid synthesis that is expressed in sebaceous glands in the skin. The company is targeting acne with this compound. At the end of 2015, Xenon completed a Phase 1 study. In February of this year, the company hit another milestone by initiating the Phase 2 trial for XEN801.

TV-45070 – A compound that targets both Nav1.7 and other sodium channels to treat conditions of chronic pain. This candidate is being developed in conjunction **Teva Pharmaceuticals (NASDAQ: TEVA).** Xenon gave Teva exclusive worldwide rights to commercialize TV-45070, and in return is eligible for over $300 million in milestone payments in addition to royalties in the low teens to low twenties based on sales performance. Teva is currently conducting a randomized double-blind placebo-controlled Phase 2b trial in approximately 300 patients with post-herpetic neuralgia. Results from this trial are expected in the second-half of this year.

GDC-0276/GDC-0310 - Two differentiated inhibitors of Nav1.7 that are being developed with Genentech. Pending results from Phase I trial. Genentech intends to initiate a Phase 2 trial in 2016. Xenon believes Nav1.7 is an important pain target and has significant potential as a new way to treat pain. The collaboration deal for these compounds with Genentech makes Xenon eligible for just over $600 million in milestone payments from Genentech provided development leads to commercialized success. In addition, Xenon is eligible for sales based compensation.

These are the notable compounds within Xenon's pipeline. Given the amount of potential milestone payments and royalties, it is plain to see the company seems vastly undervalued at just over a $100 million market capitalization despite being a mid-stage developmental concern.

Analyst Outlook and Balance Sheet:

Given its tiny size and non-United States headquarters, it is not surprising this company receives little analyst coverage. However, both analyst firms that do cover XENE have chimed in recently. On March 8th, Canaccord Genuity reiterated its Buy Rating and $16 price target on XENE. Jefferies on April 14th reissued its Buy rating and raised its price target from $10 to $13 a share as its analyst likes the upcoming milestones for XEN801.

Project in collaboration with:	Uniqure	Teva	Genentech	Merck
Potential milestone payments (Total)	$0.8 million	$335 million	$613 million	$64 million
Preclinical and clinical milestone payments	0	$20 million	$45.5 million	$21 million
Regulatory milestone payments	0	$285 million	$387.5 million	$43 million
Sales based milestone payments	0	$30 milion	$180 million	0
Royalty Structure	estimated 3-6% on net sales	estimated 12-22% on net sales	estimated 3-6% on net sales	estimated 4-9% on net sales

As of the end of FY2015, the company had nearly $60 million (~55% of current market capitalization) in cash and marketable securities on its balance sheet. Combined with ongoing milestone payments, the company is well funded to move its developmental pipeline forward without coming back to the equity markets in the foreseeable future.

Xenon is a high risk/high reward play as are all developmental concerns in this sector. I find that it has a very attractive risk profile. The company has plenty of cash in the bank, key partnerships with industry heavyweights and multiple "shots on goal" in significant and addressable markets. One is basically paying $50 million for Xenon at current levels once its cash from the balance sheet is taken into consideration. This is for a mid-stage development biotech that is partnered with some of the giants of the industry and has over $900 million in potential milestone payments in addition to royalties on any commercialized sales. It seems like the shares could produce a "landslide" for investors if things go its way in the quarters ahead.

More Research:

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