Taking Stock: SuperGen may or may not be a super investment

by Malcolm_Berko

Dear Mr. Berko: I just sold 1,000 shares of Dow Jones at $57 that my broker had me buy at $34 in March. Now he wants me to buy 3,000 shares of SuperGen, a bio-pharmaceutical company that sells around $7. What do you think of this stock? It's not quality like Dow Jones, and I'm a bit reluctant to invest $21,000, which is the profit I made on Dow Jones.

T.S.

Oklahoma City

Dear T.S.: Dow Jones was a good trade. Your broker deserves a gold star, a case of Dom Perignon and a lunch at Burger King's executive dining room. I also like his SuperGen recommendation, but I'm not comfortable with a 3,000-share position.

SuperGen Inc. (SUPG-$5.73) is a teensy-weensy biopharmaceutical company with $38 million in revenues and hasn't made a profit since Yankee Doodle went to town. This biopharmaceutical company is developing various therapeutic anticancer products with names that are unpronounceable for cancers that seem to be incurable.

SUPG and other big pharma companies ought to try tetrahydrocannabinol (THC), which is the green/gray mixture of dried flowers and leaves, prominent in the marijuana plant. Seriously, there's significant literature that speak to THC's curative effect on various cancers, especially lung cancer.

However, SUPG recently inked an agreement with the Johnson boys, (Johnson & Johnson) to market its Food and Drug Administration-approved drug called Dacogen in Europe, Asia and Japan. Dacogen, marketed in the U.S. by MGI Pharma, which owns 9 percent of SUPG, is a drug specifically for myelodysplastic disorder. This is a unique blood condition resulting from the improper development of blood cells in the bone marrow. MGI's U.S. sales of Dacogen last year were a surprising $36 million and with Johnson & Johnson promoting Dacogen overseas, some SUPG followers expect Dacogen revenues to top $120 million in 2007/08.

Meanwhile, SUPG's royalties from MGI and Johnson & Johnson will continue to grow as Dacogen sales expand. SUPG has an interesting portfolio of cancer drugs in preclinical stage as well as several promising cancer therapies in phase 1 and 2 clinical trials. The company's two other key therapies -Orathecin (oral chemotherapy compound) and Nipent (an injectable that inhibits certain enzymes in the DNA) - generated $38 million in revenues last year. Those revenues are expected to grow significantly as Dacogen's revenues ramp

up overseas.

The company has no debt, 56 million shares out, expects to report a loss of 31 cents a share in 2007 and a profit of a dime a share in 2008. Meanwhile, Elemer Piros of Rodman & Renshaw, a boutique brokerage, rates SUPG a strong buy with 12-month target price of $24. I think Elemer is a bit too sanguine and I suspect that MGI Pharma Inc. (MOGN-$23.02) with $350 million in 2006 revenues will buy SUPG long before it reaches $24.

And SUPG, which is prominent in the cancer therapy business, may be a good fit for MOGN, which is prominent in the cancer therapy business. MOGN has had excellent successes with Glidel Wafers for glioblastomas, with Hexaline capsules for ovarian cancer, Salagen for treatment of radiation-induced xerostomia and Aloxi that prevents chemotherapy induced nausea.

MOGN also has a powerful portfolio of other unpronounceable cancer prescriptives that are highly regarded by oncologists. So if MOGN, with a market cap of nearly $2 billion, purchased SUPG the deal would be cash flow positive and hardly put a dent in MOGN's capital structure. SUPG seems to be a fairly good speculation for a 12-month time frame. Its 52-week range of $3 and $7.50 is significantly below the 12-month target price of two other brokerages that follow the stock. And Walter Lack, a director who owns 320,000 shares would be delighted to see the stock at $18. So would Barclays and Vanguard, which together own nearly 5 million shares of SUPG.

Meanwhile, just try 1,000 or 1,500 shares on for size. It is hard not to feel giddy and invincible especially after that Dow Jones home run. But don't get greedy. As I've said before: "losing an opportunity is a much less regrettable alternative than losing money."

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