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FOCUS: Investors In Enzon See Promise On The Horizon

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NEW YORK (Dow Jones)--Activist investors say it's time for Enzon Pharmaceuticals Inc. (ENZN) to unlock the value of its assets.

One fund manager in particular, DellaCamera Capital Management, has been agitating for change at Enzon for more than two years, and it has gotten much of what it has asked for with the help of some of its larger brethren. Enzon's chief executive is gone and the board of directors is reshaped with representatives of Carl Icahn and other activists. Enzon has refocused the company, sold off a noncore business and initiated a share buyback. New York-based DellaCamera and other investors hope a big boost in Enzon's stock price is next.

Analysts and investors say the company's free cash flow and revenue stream from royalties make it undervalued. They want the company to unlock that value.

"Now it's time for the company to do the right thing," said C.K. Cooper & Co. analyst Jeff Cohen, who has a buy rating and a price target of \$18 on the stock, which closed Tuesday at \$10.45. The right thing, he said, is to "shove the company through the shredder and cash out the assets," which he values at between \$13 and \$14.

"It is an asset play," said Cohen, speaking of the Bridgewater, N.J., drug maker's \$363 million in cash and royalty streams. The most important royalty stream is from the PEG-Intron hepatitis C drug, a business the company is trying to sell. Selling it would give Enzon cash it could give to investors by buying back stock more aggressively, paying a dividend or launching a tender offer for some shares. The current share buyback program started in September, but Enzon has bought back only 1.3 million shares as of April 30.

Aside from the assets, Cohen said the other \$4 a share or so in value comes from the potential of Enzon's oncology pipeline, as some drugs are in clinical trials. Even analysts not as bullish as Cohen agree the company's pipeline is promising.

Paving The Way

DellaCamera led the activist charge into Enzon starting in late 2007, but larger fund managers subsequently joined it. DellaCamera has long believed Enzon was spending too much on general and administrative as well as compensation expenses, and not doing a good enough job of trying to shed businesses.

Ever since Icahn Associates' Alexander J. Denner, who is now acting CEO, and Iridian Asset Management's Harold Levy have joined the board, DellaCamera has generally been happy with management.

The company has pleased the bulls by saying it is focused primarily on its drug pipeline. On a May 10 earnings call Enzon said it had completed most of its restructuring. Also on that call, Denner said the sale of the PEG-Intron business is "relatively far along."

Since the start of the fourth quarter of 2009, Seth Klarman's Baupost Group and Mark Kingdon's Kingdon Capital have bought shares in the company, according to filings.

Neither DellaCamera nor Enzon would comment for this article, but the case the hedge-fund manager has made for changes at Enzon lies in its filings with the SEC dating back to late 2007, when the stock was trading a bit below \$10 a share. It sagged to less than \$4 during the financial crisis in 2008.

That \$10 price is the target set by BMO Capital Markets analyst Robert Hazlett, who has a market perform rating on the stock. In a report earlier this month, he said he expects higher research and development costs as Enzon develops its pipeline, and cited as a risk the fact that Merck & Co. (MRK) is the marketer of PEG-Intron, which competes with Roche Holding AG's (RHHBY, ROG.VX) popular Pegasys. BMO makes a market in Enzon shares.

While he is the rare bear in Enzon stock--at least a bear compared with bulls with \$18 price targets--the common point of contention is the value of Enzon's existing assets.

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