PVI – The Global Investment Newsletter

29th of December 2020

Stocks

The further stimulus measures in the USA and the agreement (or significant rapprochement) in the Brexit-negotiations between the EU and Great Britain had a positive effect on the stock markets. The German DAX was thus just able to mark a new record high. The general conditions are generally positive for equities, even if sentiment in the US is very optimistic and the high valuations of some technology stocks should warn us to be cautious. The profit estimates for 2021 for the S&P 500 have now been raised by the investment banks to 180-190 points. This would be a P / E ratio of just under 20 and thus still within reasonable limits compared to the US interest rate level of less than 1%. We assume that the index levels will remain unchanged on a net basis for the coming weeks and months (1st quarter). The indices could initially rise a little further, but then go into a correction or sideways phase.

Precious metals

Gold and silver were able to gain further in the last few weeks, but now a correction phase could occur until mid-January. After that we see precious metal prices rising again towards spring into summer, as the economic recovery in India and China should also strengthen physical demand again. As is well known, physical demand in these countries had plummeted by 50% in 2020, but this was more than offset by the strong ETF purchases on the part of US investors. We see a price target for gold of USD 2300 for 6-12 months. Silver could surpass the USD 30 mark.

Natural Gas Stocks

With natural gas, patience is still required. The warm winter temperatures keep the spot prices very low (approx. USD 2.4 in the January contract). Many negative weather scenarios now seem to be factored into the price - furthermore, it cannot be ruled out that winter will still be cold in January and February. Due to the fundamental undersupply in the market, we are sticking to our positions. At the current prices of the futures curve, there is no incentive for gas producers to invest in new wells. This would then lead to a strong deficit in the market from mid-2021, even if the winter stayed that warm. Therefore, there is a very positive risk-reward ratio here.

News about stocks in the model portfolio and on our watch list:

Amplify Energy:

Shortly after our recommendation, Fir Tree Capital announced that it would sell the remaining stake (almost 20% of the shares) in Amplify via a broker placement for USD 1.15. This confirms our assessment that Fir Tree cleaned up the books and threw Amplify on the market without discrimination. From the point of view of the large fund, this is economic, because with the adjusted ESG criteria, it receives more new customer money - this weighs much more heavily on business than a price increase in the small remaining share in Amplify Energy. We, however, took this outstanding opportunity and increased the holdings in our private portfolios again. In the meantime, Amplify has hedged its production from 2021 now by 90% with minimum oil prices of 45 USD (so-called collar hedge). This means that there will be cash flows of at least $ 50 million in 2021. The debt should be reduced so low during 2021 that a dividend could be paid again in 2021/22. If Amplify were to distribute only a dividend of USD 20 million, that would equate around USD 0.5 per share or a dividend yield of over 35% at the current price.

Centrica:

The stock initially came under pressure due to strike threats from a union, but recovered well as the Brexit deal progressed. The strike affects around 20% of the workforce and is a reaction to the severe cuts in wages brought about by the new CEO O'Shea. However, this is only a minor setback as the other 80% of the workforce (and their unions) have accepted the cuts. Centrica would like to reduce the cost structure in the UK core business (gas and electricity supplier for end customers), which partly originates from the time as a state monopoly in the 80s, to the level of its competitors (lower by approx. 20-25%). For this, 5,000 of 25,000 employees have already been laid off, and the wages of the others have been reduced by 10%. In the end, because of the fierce competition, they have no other choice and the union will eventually give in.

According to circles, the oil and gas activities in the North Sea are now also about to begin their first sales talks. Sales proceeds of 0.8 - 1 billion pounds could be booked here. This would mean that Centrica would be free of debt and could concentrate on its core business. The turnaround is going according to plan here; we continue to see stock prices over 100 pence coming.

Trading recommendations:

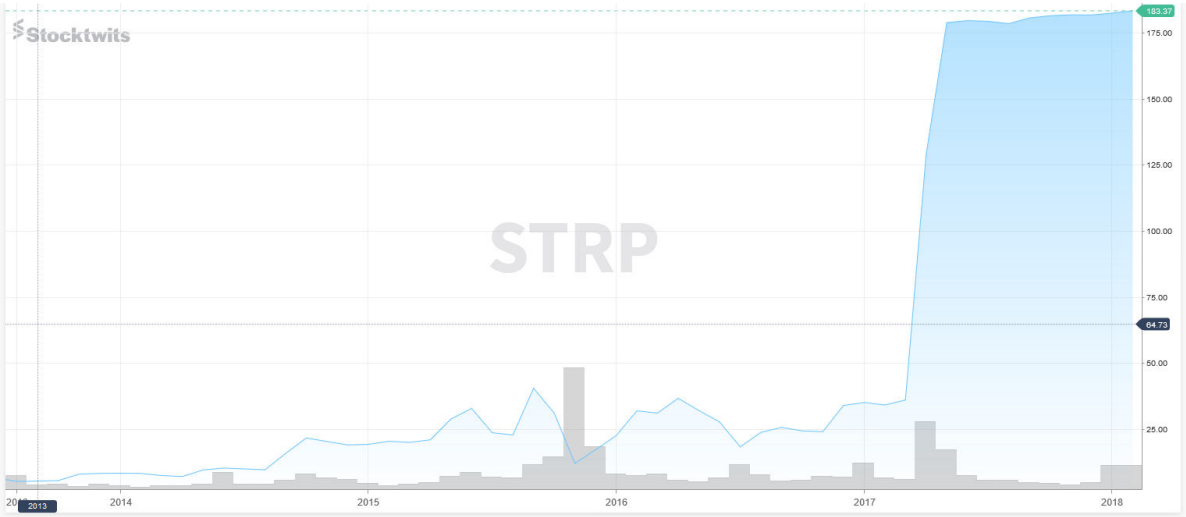
Rafael Holdings

Rafael Holdings *(price: 24 USD, WKN: A2JDMF, ISIN: US75062E1064, ticker: RFL, market capitalization approx. 350 million USD, trading in New York)*, is added to the model portfolio.

The share emerged as a stock spin-off from IDT Telecom and **offers an excellent opportunity to participate in the early introduction of a new type of cancer treatment.**

IDT Telecom is the company of Howard Jonas, a hugely successful Israeli entrepreneur, financier and speculator. Since the outlook for the telecommunications industry has been rather subdued for a long time, Jonas spun off several innovative companies from IDT, which subsequently developed very well. The Straight Path spin-off, which included radio spectrum that was valuable for 5G, which Jonas was able to acquire for only USD 50 million, was listed at just under USD 5. After a bidding war between the major US telecommunications providers a few years later, Straight Path was taken out for around USD 180 per share (by Verizon).

Chart: Straight Path (Ticker: STRP)



Source: www.stocktwits.com

The currently most promising of the IDT spin-offs is Rafael Holdings. In the meantime, Jonas is concentrating only on Rafael and has delegated all tasks at IDT to others. Rafael Holdings owns various debt-free properties (including the IDT headquarters, the properties are worth around USD 70-100 million) and an approx. 50% stake in Rafael Pharma, which has a very promising drug in oncology in the pipeline. Rafael Pharma is pursuing an innovative research approach that focuses on the altered metabolism of cancer. This mechanism was discovered around 100 years ago and has experienced a renaissance in cancer research in recent years. Various listed companies (including Agios, Calithera, and SynCore Biotec) are developing

drugs that aim to remove nutrients from cancer (https://www.agilent.com/content/dam/about/newsroom/media-coverage/2019/June19CancerSR.pdf).

The active ingredient CPI-613 discovered by Rafael is the one that various scientists believe has the best prospects and the broadest area of application (for various types of cancer). Rafael is initially concentrating on the almost incurable or incurable types of cancer such as advanced pancreatic cancer or leukemia, as the regulatory authorities are as willing as possible to approve the substance. Then one would like to test and approve the CPI-613 in other, even more common types of cancer.

Chart: Rafael Holdings (Ticker: RFL)

Source: www.bigcharts.com

In the case of pancreatic cancer, phases I and II, which have already been completed, have achieved remarkable results: With treatment with CPI-613 and a reduced dose of the current standard in chemotherapy, the remaining life (compared to normal chemotherapy) could be extended by approx. 100% (from 6 to just under 12 months) and with significantly fewer side effects (which are mainly due to chemotherapy anyway).

Even more noteworthy, 3 of the original 18 test subjects had all cancer symptoms removed and 2 of these were able to live for several years. Together with Rafael's team, these two test persons rang the opening bell of the stock exchange in New York when Rafael was first listed. One of the two died of liver failure a few months ago, the other is still alive today (his blog: https://cpi613.com/). Of course, this does not mean that these people were able to beat the cancer, but they are with the help of CPI -613 symptom-free and can continue to

live with the medication for a few years, which is a small medical miracle in advanced pancreatic cancer.

CPI-613 is currently in the advanced stage of phase III tests (for pancreatic cancer and also for leukemia). The US FDA has given CPI-613 the rare “Fast Track” approval status for both pancreatic cancer and leukemia. Furthermore, CPI-613 is classified as an “orphan drug” in various rare types of cancer, which means that it is easier for the authorities to approve.

With Ono Pharmaceutical, a global Japanese pharmaceutical company has already noticed Rafael - Ono is licensing CPI-613 for approval in Japan.

The first results of the phase III study should be announced in the second quarter of 2021, and enough data for approval by the FDA should be announced by the end of the year.

The sales potential of CPI-613 is enormous: there are around 50,000 to 60,000 pancreatic cancer patients in the USA alone, and twice as many in the EU. At a price of around USD 100,000 per year (this is the cost of chemo in USA at the moment); this would be sales of USD 5 billion for pancreatic cancer in the USA alone! It is well known that the manufacturing costs for CPI-613 are very low and biotech companies with blockbusters are often traded for 3-5x sales. Furthermore, CPI-613 could establish itself as the world standard of treatment (in combination with chemotherapy) in many types of cancer. The 50% stake that Rafael Holdings holds in Rafael Pharma could be worth tens of times the current price of Rafael Holdings.

If you compare Rafael with other competitors in cancer metabolism research, it is noticeable that Rafael and Agios are the only companies with active ingredients in phase III. All other companies are only in pre-clinical phases, or in phase I and II (even BionTech, which actually specializes in cancer research, does not yet have a drug in phase III - except for the Covid vaccination). This means that it will be years before such drugs can come onto the market. Therefore, these shares are likely to be diluted several times by raising capital. Rafael's stock market valuation, however, is similar to that of other competitors and therefore clearly undervalued.

Scientific articles (https://www.ncbi.nlm.nih.gov/pmc/articles/PMC7517959/) assess the prospects of all new drugs currently in Phase III for pancreatic cancer. The highest rating falls on the electromagnetic fields from Novocure - the rating is only higher than for CPI-613, however, as these devices are already used for other types of cancer.

Chart: Novocure (Ticker NVCR)

Source: www.bigcharts.com

Novocure's interesting approach works with electrodes that are placed on the parts of the body with the cancer and create specific fields that prevent the cancer cells from dividing. The effectiveness is similar to that of CPI-613; the side effects are similar in terms of intensity. However, the devices are the size of a backpack and must be carried for 24 hours. Despite this disadvantage, Novocure has had great success with it and now has revenues of around USD 500 million. The stock market has now rewarded this with a market value of USD 17 billion - the share has increased twenty-fold in recent years. Something similar could happen to Rafael in the next few years.

Of course, an investment in Rafael Holdings is to be classified as speculative. However, the risk / reward ratio seems extremely beneficial. The risk is also reduced by the value of the real estate (which makes up about 1/3 of the current market value). It can also be assumed that research on CPI-613 would continue even if the results on pancreatic cancer were unsuccessful, since CPI-613 is currently being scientifically investigated in various types of cancer. Furthermore, majority owner Howard Jonas would not have bought another $ 20 million shares in November if the outlook had changed. As mentioned above, Jonas has an excellent entrepreneurial touch.

Fundamental Drivers - timeline

- First results on phase III pancreas in q2
- Approval for pancreas at the end of 2021 / beginning of 2022
- Results on leukemia phase III at the end of 2021
- Market Launch / Revenues 2022

Buy: Rafael Holdings, Current Price: 24 USD,

Target 100-500 USD, time frame: 24 – 36 month, Stop/Loss 10 USD

Current Model Portfolio: (starting value on 01/01/2020: 100.000 Euro)

YTD return: +22,40%*

25.000	**Euro Rafael Holdings (entry 12/29/2020: 24,2 USD)**
25.300	**Euro Amplify Energy (entry 12/09/2020: 1,33 USD, now 1,37 USD)**
22.100	**Euro Peyto (entry 11/11/2020: 2,85 CAD, currently: 2,88 CAD)**
25.840	**Euro Centrica Plc (entry 11/24/2020: 44,5 pence, currently: 46 p)**
24.650	**Euro Barrick Gold (entry 11/24/2020: 23 USD, currently: 23,1 USD)**
122.890	**Euro Total Value as of 12/29/2020**

* We base the portfolio on a simplified flat tax of 25% (calculated after positions are sold). The exchange rate changes are taken into account in the values, but not shown above for reasons of clarity).