



HEIJIN CAPITAL

HEIJIN CAPITAL BI-WEEKLY INVESTMENT COMMENTARY

August 23rd – September 6th, 2020



Commentary Overview

COMMODITIES

COMMODITIES RUSH..... 3

SECTOR ANALYSIS

REGENERATIVE MEDICINE..... 4

Market Snapshot

INDEX	CLOSE	2 WEEKS	YTD
Dow Jones Industrial Average	28,133	+0.62%	-2.55%
S&P 500 Index	3,427	+0.13%	+5.19%
NASDAQ	11,313	-0.59%	+24.43%
10-yr Treasury Yield (% yield)	0.72%	+0.07%	-1.16%
WTI Oil (\$/bbl)	\$39.77	-6.69%	-34.87%
Bonds	\$118.10	-0.45%	+4.81%

*bonds are represented by the iShares Core U.S. Aggregate Bond ETF (NYSEARCA:AGG)



Commodities

Commodities Rush

The rush on gold over the past months didn't go unnoticed. It blasted through the \$2,000 mark for the first time in history as investors are increasingly worried about the bull run in equity markets. The investors who held positions in gold over the past months have netted high returns, but what about those who missed out the gold rush?

For those who missed out on the gold rush we think foremost palladium but also platinum could be reasonable investments. We are generally bullish on many commodities, given that the uncertainties in the equity and bond markets results in significant levels of liquidity flowing into more tangible assets such as commodities.

Palladium

Palladium is currently in its eight consecutive year where supply has not been able to keep up with the demand. Palladium's main usage is in the catalytic converter of car engines. Even though skeptics argue that palladium will be replaced with the more readily available platinum, it will still take years until the necessary technology is ready and overall cheaper than using palladium. Electric vehicles are obviously the biggest threat to palladium demand, but as for now it will still take years until pure EVs surpass gasoline car sales. Moreover, during this period governments are expected to tighten their emission regulations, which will result in an even higher demand for palladium.

Platinum

The philosophy for platinum is very similar to the palladium one, since it is palladium's counterpart in diesel engines instead of gasoline engines. Moreover, similar to gold and silver, platinum is considered a safe haven and is used popular when there is high volatility in equity markets. Interestingly, however, platinum has lagged behind gold and silver during this period of high volatile, which suggests that it could appreciate in near-term future to match its peers.

Moreover, even though COVID-19 might have lowered the demand for platinum, it has also caused the closure of a significant amount of platinum mines in South Africa, the largest platinum producer.

Heijin's take on commodities over the next few months is overall bullish, as investors are increasingly scared of the current bull market and want to diversify into more tangible asset classes. As the most promising commodities we see palladium and platinum, which suffered from low supply levels for years and whose situation has been made significantly worse by the closure of many mines. As the global economy opens up, we expect a small demand shock for these two precious metals which will result in significant price appreciation.

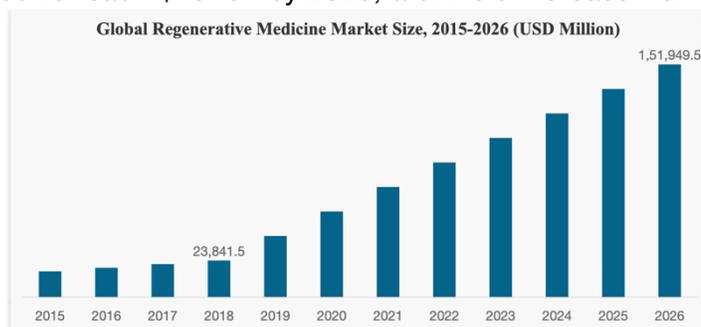


Sector Analysis

Regenerative Medicine

Regenerative medicine is a small yet growing discipline which seeks to restore and heal damaged cells in the body, bringing them to regular function once more. Regenerative medicine is generally based upon stimulating cells to establish normal function, thereby causing the body to repair itself. This process may involve the transplantation of stem cells, familial cells or tissue, stimulation of the body's repair processes, or the use of cells as delivery vehicles for therapeutic agents such as genes and cytokines. Excitingly as the field of cloning has taken leaps and bounds in the sophistication of production and marketability's of products, as shown by 'JUST Meat' which uses cells from the feathers of chicken to cultivate and grow real cells, thereby allowing them to create chicken nuggets and even chorizo. Thus, from this, it is no means a far step to produce fully functioning human organs from the patient's DNA, thus eradicating the potential of immunological mismatch, in which the host's body does not accept the transplant. Moreover, the science can potentially be used to create a cure for a degenerative disease such as Parkinson's, Alzheimer's and potentially diabetes. Based solely on the science and theory behind the medical discipline, it is an extremely interesting investment with brilliant potential, however the financial aspect of the sector is just as promising too.

As shown by the figure below, the discipline is slowly becoming a serious player in the medical sector with the size of the market expected to reach \$151bn by 2026, a six fold increase from today's market valuation. Moreover, we have seen governments confidence in the discipline, with many governments spearheading R&D. For example, Japan passed the Regenerative medicine law in 2013 and China has approved numerous research projects exploring the science.



An extremely interesting example of the real-world potential this sector has is Vericel (VCEL: NASDAQ). Vericel manufactures advanced cell therapies for the sports medicine and severe burn care markets. The goal of their therapies is to repair or restore a patient's damaged tissues or organs using their own cells. Vericel uses proprietary cell-processing technology to create populations of cells derived from the patient's own tissue. Specific to the type of therapy needed, a biopsy tissue is taken from the patient. The sample is then taken to a lab to begin the process of cellular expansion. These cells, in conjunction with rehabilitation regimes, have demonstrated the ability to restore function to patients with serious medical conditions.

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Epicel is one of VCEL's leading therapeutics, it is a cultured epidermal autograft (the graft is grown from a patient's skin). These grafts provide skin replacement for patients who have deep burns comprising a total body surface area of greater than or equal to 30%. From 2 postage-stamp-sized biopsies, Vericel can grow enough skin to cover the patient's entire body. This alone has the potential to help millions of burns victims around the world, and the technology also has the potential for cosmetic procedures. Other products include "MACI" which is an FDA approved medical treatment for the cultivation and repair of cartilage damage of the knee. VCEL has had strong and stable revenue growth over the past 5 years, averaging around 22% PA. The company has no debt and has assets totaling almost 10x their short and long-term liabilities. What we see in VCEL is a well-run firm, with brilliant growth potential in a highly profitable niche discipline of the medical sector with extraordinarily high barriers to entry.

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