April Portfolio

Sector | **Investment Strategy**

In March our monthly portfolio continued to perform well (+6.7%) while the benchmark index OMXSGI was nearly flat (+1.0%) as the equity markets found a new trading range after the recovery rally in January-February. During March 7 of 10 stocks in our portfolio outperformed our benchmark index OMXSGI. Most notable outperformance came from Stillfront (+31%) and Knowit (+13%), while BioInvent (-3.7%) and Xvivo (-2.0%) were lagging the benchmark somewhat. For April we keep 5 of 10 stocks in our portfolio, replacing Stillfront, Knowit, Green Landscaping, Recipharm and Essity with ABB, Stora Enso, Storytel, SyntheticMR and Volvo.

March Portfolio

March was another strong month for our portfolio with 7 of 10 stocks beating the benchmark index OMXSGI (Stillfront, Knowit, Elekta, Green Landscaping, Recipharm, Essity, Kinnevik) and a total outperformance for our portfolio of 5.7%. In particular Stillfront and Knowit posted strong performance in March, driven by insider share purchases in the case of Stillfront and M&A speculation in the case of Knowit after the public bid on sector peer Acando.

5 new stocks in our April portfolio

In our march portfolio we keep 5 of 10 stocks, replacing Stillfront, Knowit, Green Landscaping, Recipharm and Essity with ABB, Stora Enso, Storytel, SyntheticMR and Volvo. In ABB, we argue that the company will deliver ahead of market expectations in 2019 fueled by late cyclical demand, which we argue was further indicated by the take-off in order intake in Q4'18. We include Stora Enso again after removing it in February due to the risk we saw for weak pulp market data, which has since played out. We believe that we are now close to the bottom in this market and expect the share to have a good run in April despite somewhat softer demand. We add Storytel which is in a phase of strong operational progress. The offering grows in popularity in its domestic Nordic footprint, and internationally Storytel is launching the service in 4-5 new markets in 2019. In our view the current valuation does not reflect the combination of growth in subscribers and revenues combined with a reliable cash flow generation in the core business. We believe there is substantial upside potential in the share after a weak run in March. We also add SyntheticMR which saw its share drop following the Q4'18 report despite a solid set of numbers, as expectations were too elevated, in our view. However, expectations have now decreased somewhat and the valuation of EV/EBIT 23x 2020E indicates that SyntheticMR is trading at a discount of almost 30% compared to peers. Lastly, we add Volvo, arguing that decreasing order intake for Volvo Trucks in North America likely is priced in at this point. The North American order book for 2019 is basically full (in relation to production capacity), which we expect will lead to good development for sales and EBIT in 2019 given our view of easing supply chain constraints.

Portfolio

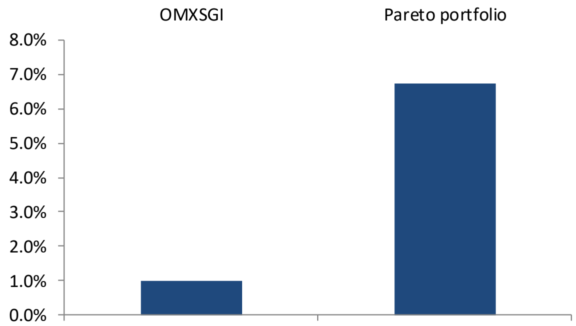
	Rec weight
BioInvent	10.0 %
Elekta	10.0 %
Kinnevik	10.0 %
Stendörren	10.0 %
Xvivo Perfusion	10.0 %
ABB	10.0 %
Stora Enso	10.0 %
Storytel	10.0 %
SyntheticMR	10.0 %
Volvo	10.0 %
Sum	**100 %**

Performance

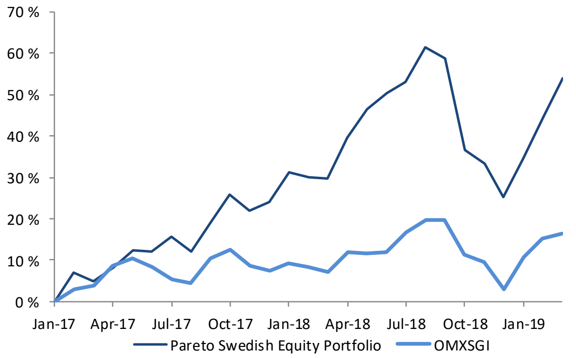
	Performance		
	March	YTD	Since start(1)
PAS Portfolio	6.7%	23.0%	54.1%
OMXSGI	1.0%	13.0%	16.4%
Relative performance	5.7%	10.0%	37.7%

(1) February 2017

Performance in March



Total performance (since February 2017)



STEF – BUY, TP SEK 123
Our main attraction is Stendörren's state-of-the-art logistics project, Greenhub Bro, northwest of Stockholm. Stendörren's project portfolio amounts to SEK 1,054m as of Q4 2018 and the unrealised value changes of SEK 326m in 2018 are largely explained by the strong development of GreenHub Bro. We believe Stendörren can continue to increase its EPRA NAV at a rapid pace in the coming years and the project could potentially transform Stendörren into a logistics player with several prime assets. As icing on the cake, the company could also develop residential building rights of up to 1,500 units over the coming years; an out-of-the money option in today's shaky market that could become in-the-money if the residential market picks up. The share is trading at a significant discount to our EPRA NAV for 2019e.

EKTA – BUY, TP SEK 160
Elekta's negative post Q3 reaction on the back of gross margin pressure is still resulting in a major upside to our SEK 160 target despite some recent recovery. The gross margins are likely to improve with Unity deliveries, software launches (H1 2019), a new Value Linac (Q4 2019), China volumes (end 2019 to 2022 or 2023) and higher volumes generally. Near term the price pressure on some hardware sales is an issue but this is not likely to be a long-term issue. An extended period of share price pressure could open up for a bid or a tighter collaboration with Philips. After 2019 we expect more substantial Unity sales, support from an extensive investment program in China and that Elekta will start to find operational leverage from higher sales. Elekta still needs to continue to improve the US support and this is also more likely now with the support from the Unity launch, improved software and an extended sales organization.

ABB – BUY, TP SEK 230
ABB is late cyclical and during 2018 we have seen a take-off in order intake for the industrial capex related divisions Robotics and Motion and Industrial Automation. Order intake in Q4 were up 11% in Robotics and Motion and 8% in Industrial Automation supported by a recovery in demand from mining, marine, oil and gas and not least general engineering. In Electrification base orders were increasing by 2% in Q3 reflecting a stable demand in construction. Thanks to the late cyclical demand, we expect ABB to deliver a stronger than expected 2019 and probably also 2020 and we think ABB is one of the best bets on that cycle. However, most important is that ABB will go through a major restructuring programme in 2019 and 2020 in order to both sell Power Grids to Hitachi in mid-2020 and also the significantly take down overhead costs by USD 500m from 2021. These measures are costly, but we are convinced that ABB will emerge as a more streamlined and cost-efficient company in 2021. ABB will also distribute USD 7.6bn to shareholders probably in the form of a very aggressive repurchase program in the second half of 2020.

SYNT – BUY, TP SEK 400
The shares declined following the Q4 report despite solid set of numbers which we believe was due to elevated expectations. However, the expectations have decreased somewhat since then and the valuation EV/EBIT 23x 2020E indicates that SyntheticMR is trading with a discount of 28% compared with its peers. We find this unjustified given that the company's EBIT is projected to show CAGR of 68% in the period 2018-2021 versus 20% for the peer group in the same period. The comps for Q1 are also easy and we forecast net sales to grow by 29% y/y and EPS to increase by 50% y/y which should highlight the growth story of the company again. Remember that the company's solution could become the gold standard for quantitative MRI in the future and has only penetrated 3% of the addressable market. We thus see a good entry point to buy the shares ahead of their Q1 report due out 29 April.

VOLV– BUY, TP SEK 175
Despite decreasing order intake for Volvo Trucks in North America (which we believe are priced in to share), the North American order book for 2019 is basically full (in relation to production capacity). Because of this we expect a good sales development in 2019 as well as for EBIT given our view of easing supply chain constraints. Current statistics for Trucks in Europe point to a good development in Q1'19, as well as that we expect a decent general development for Construction Equipment and Penta. Given the current operational improvements, we expect a wave of positive cash-flow to continue to build the net cash position going forward – making us confident of continued high dividend payments (currently around 7% including extra-dividend). The Volvo share currently trades at a c.30% discount to the historical NTM EV/EBIT multiple, which is too much, in our view. Buy, TP SEK 175 – our bull case is SEK 207 per share (SOTP).

STERV– BUY, TP EUR 15

We decided to remove Stora Enso from our portfolio after January due to risk for weak pulp market data which has been the case since. We believe that we are now close to the market bottom and expect to see lower inventory levels in March which should lead to prices flattening out. We expect the share to have a good run in April and we expect comments in the Q1 report to support our view that markets are not deteriorating despite somewhat softer demand. Stora Enso has gone through a major transformation over the past decade, from being very dependent on the structurally declining Paper business, it is now seeing a majority of revenues and profits from areas geared for growth. With the ramp up of the Beihai board mill in China and the decision not to invest in a pulp mill, Stora Enso is now closer to the end of its long transformation phase. Despite recent weak share price performance we believe that fundamentals for Stora Enso continue to look good, transformation is on track, market conditions remain strong, demand/supply for pulp is attractive in the coming years despite recent weakness in China and valuation is attractive. The valuation gap to the sector started to close in recent years and as the transformation continues we believe that the revaluation will continue with likely multiple expansion after the Bergvik split where terms have now been set. On top of the valuation potential and despite the strong share price performance in the past year, Stora Enso still provides one of the highest yields in the sector, ~5% in the coming years without holding back on potential cartonboard conversion investments. We believe that the share remains oversold and that it is a bargain at these levels, even if 2019 profitability were to come down 10-20%, as there is significant upside based on a conservative multiple (6x EBITDA) and the forest value we have applied is far from aggressive.

STORY – BUY, TP SEK 175

Storytel is in a phase of strong operational progress. The offering grows in popularity in its domestic Nordic footprint. Internationally Storytel is launching the services in several new markets and is currently active in 16 markets with launches in 4-5 new markets expected in 2019. The subscriber base is likely to be at 835k by the end of the first quarter, for an increase of around 260k over the past twelve months. Sweden and Denmark combine for total revenues of SEK 1.24bn with an EBITDA margin of 8%, generating a positive operational cash flow of around SEK 100m in 2018. The cash flow profile should have a positive impact on the risk profile of the company. The current valuation does not reflect the combination of growth in subscribers and revenues combined with a reliable cash flow generation in the core business. We believe there is substantial upside potential in the share.

KINV – BUY TP SEK 290

Kinnevik has an unparalleled track record of creating strong business in the telecom and media spaces and has generated substantial returns to its shareholders over time. Its biggest holding, Zalando delivered a strong fourth quarter with a guidance for 2019 that was above market expectations. The medium-term outlook over the next five years is also promising and we continue to see significant upside in the Zalando share. The other two major assets in Kinnevik includes the telecom holdings Millicom and Tele2. Millicom is performing well and is expanding its footprint in the Latam markets. Tele2 has just finalized its acquisition of Com Hem and delivered its first quarterly results report as a combined company. Synergy targets were raised and divestment of non-core assets is likely to result in extra distributions to shareholders. We believe these positives to be reflected in the current share price of Tele2 and we do not see any meaningful upside in the share.

XVIVO – BUY, TP SEK 171

The Q4 report from Xvivo was a blockbuster and makes us more confident in our 2019 numbers. The PMA approval for XPS with Steen Solution; probably the biggest event in the history of the company, is expected any day, and the approval will come some 9 months ahead of our previous estimates, prior to the early filing during spring 2018. The swift filing is an indication, we believe, of the regulatory authorities' willingness to see products like Steen Solution on the market as the limited supply of organs is not going away. With a PMA approval, reimbursement codes and a collaborator in United Therapeutics, 2019 has all the ingredients to form the basis of a stellar year for the company.

BIOINVENT – NOT RATED

Please note that Pareto Securities acts as advisor to BioInvent International AB in a proposed transaction.