October portfolio

Sector | **Investment Strategy**

September was a modestly upbeat month for the Swedish equity market, as concerns around the global economic outlook and various political risks faded to the background, at least temporarily. Our benchmark OMXSGI gained 3.0% during the month, and our portfolio underperformed the benchmark by 1.0%, posting a return of 2.0% for the month. Stora Enso, IRRAS and IPC contributed positively to the portfolio performance, while Azelio underperformed. For October, we keep 8 of 10 stocks in our portfolio; we include Boule Diagnostics and Platzer and remove Stora Enso and Telia.

September portfolio in review

The Swedish equity market traded slightly up during September – as macro concerns and political risks faded somewhat to the background for now – thereby extending the choppy performance trend established since April-May. Our benchmark OMXSGI gained 3.0% and our portfolio gained 2.0%, resulting in an underperformance for our portfolio of 1.0% during the month. Stora Enso (+9%), IRRAS (+6%) and IPC (6%) contributed positively to performance for the month, while Azelio was the main laggard (-11%). In total, 5 of 10 stocks in our portfolio outperformed the benchmark index.

2 new stocks in our October portfolio

We make two changes in our October portfolio; we include Boule Diagnostics and Platzer and remove Stora Enso and Telia.

The Boule share price has declined by 50% during the past 12 months for two reasons; the FDA warning letter in October 2018 regarding the company's production facility and weak earnings performance. We believe the market reaction on the warning letter is overdone as it has not impacted production and sales activities. This indicates that the issue is easy to solve, and FDA's on-site inspection this summer suggests to us that Boule is close to meeting FDA's requirements. Boule has shown weak earnings performance mainly due to large instrument deliveries to India with low gross margins. However, this is part of the company's razor-razorblade strategy, to sell instruments with low margins and then sell tied-to-instruments consumables with much higher margins, and we believe Boule is set to show solid earnings growth going forward.

We find Platzer's project portfolio attractive, and if all stars are aligned, up to six different projects could start construction this year. Plenty of triggers are ahead as we expect several important zoning plans to be granted. We estimate EPRA NAV growth of 34% including paid dividends for 2019e and a further 15% for 2020e, which is well above the sector average.

Portfolio

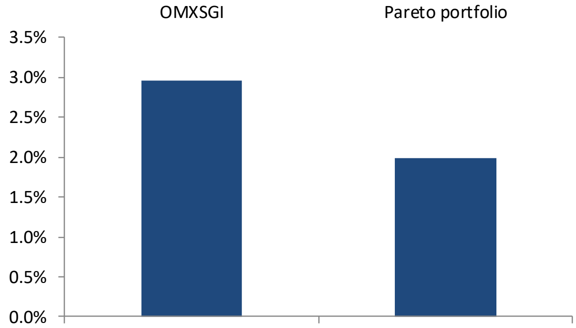
	Rec weight
IRRAS	10.0 %
Elekta	10.0 %
Azelio	10.0 %
Boule Diagnostics	10.0 %
MIPS	10.0 %
ABB	10.0 %
IPC	10.0 %
Storytel	10.0 %
Platzer	10.0 %
Securitas	10.0 %
Sum	**100%**

Performance

	Performance		
	September	YTD	Since start[(1)]
PAS Portfolio	2.0%	32.7%	66.2%
OMXSGI	3.0%	22.6%	26.2%
Relative performance	-1.0%	10.1%	40.0%

[(1)] February 2017

Performance in September



Total performance (since February 2017)

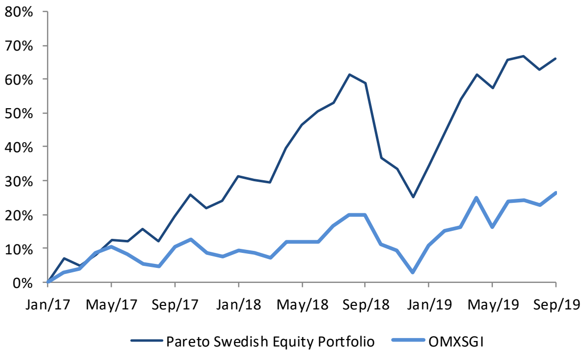


ABB – BUY, TP SEK 220

ABB is late cyclical, and during 2019 we have seen a continued increase of order intake for the group of 3% in Q1 and 1% in Q2 despite weaker growth from primarily the automotive sector hitting the historic star performer Robotics & Discrete Automation. Order intake continues to be good for the less cyclical Electrification with order intake up 6% and 5% in Q1 and Q2 2019 reflecting a strong development in the global construction sector. Also, base orders in Industrial Automation and order intake in Motion are supported by a late cyclical recovery in demand from metals and mining, oil and gas and marine. Thanks to the late cyclical demand, we expect ABB to deliver a stronger than expected 2H 2019 and 2020, and we think ABB is one of the best bets on that cycle. However, most important is that ABB is going through a major restructuring phase in 2019 and 2020 by selling Power Grids to Hitachi in mid-2020 and by aggressively taking down overhead costs by USD 500m from 2021 and not least by streamlining the acquisition of GEIS (General Electric) in the US. These measures are costly, but we are convinced that ABB will emerge as a more streamlined and cost-efficient company in 2020 and 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.

EKTA – BUY, TP SEK 170

Unity is now established both clinically and commercially with several multi Unity orders, plenty of Interest at conferences and a rapidly expanding body of positive treatment feedback. Elekta has made several management changes and is in a better position to recruit capable people on the US market. In addition, the supply of traditional solutions is improving and in mid-September Elekta had an excellent opportunity to secure additional interest for Unity during the US ASTRO conference.

IRRAS – BUY, TP SEK 40

The share price has declined by 40% since the IPO back in 2017 due to some initial problems that have been either solved or are set to be solved in the near future. The most discerning issue has been the delayed CE mark for the catheter, but we believe there is a good chance of a clearance during Q3 or early Q4, which is the most prominent catalyst for the share in the near term. IRRAS fluid management system to treat intracranial bleeding is the only active system on market and provides clear health economic advantages with the opportunity to become the next standard of care. The product is already FDA approved, and the company's financial target for 2021 of sales exceeding SEK 275m indicates substantial upside potential going forward.

BOUL – BUY, TP SEK 68

The Boule share price has declined by 50% during the last 12 months for two reasons; the FDA warning letter in October 2018 and weak earnings performance. We believe the market reaction on the warning letter regarding the company's production facility has been exaggerated since the company has been able to continue their product production and sales activities despite the letter. This indicates that the issue is easy to solve, and FDA's recent on-site inspection this summer implies that Boule is probably close to meet FDA's requirements. Boule has shown weaker earnings performance during the last 12 months due to large procurement deliveries of instruments to India with weak gross margins. However, this is part of the company's razor-razorblade strategy, to sell instruments with low margins and then sell tied-to-instruments consumables with much higher margins. With the help of easy comparables in the coming quarters, we believe Boule is set to show solid earnings growth with a potential near-term clearance of the FDA warning letter as the icing on the cake.

PLAZ – BUY, TP SEK 101

Platzer offers investors the most clear-cut exposure to Gothenburg, Sweden's second-largest metropolitan area. Our main attraction is Platzer's attractive project portfolio, and if all stars are aligned, up to six different projects could start construction this year. Plenty of triggers lie ahead as we expect several important zoning plans to be granted. We estimate EPRA NAV growth of c. 34% including paid dividends for 2019 and a further c. 15% for 2020e, which is well above the sector average.

MIPS – BUY, TP SEK 205

Mips is a fast-growing company with a scalable business model and high profitability. Over the coming years, we see significant opportunities for the company to continue to drive market penetration in its core categories of Bike and Snow. Additionally, we believe that Mips will grow sales to the Moto category rapidly and see the net sales target of SEK 1bn by 2025 as reasonable. We expect Mips to continue to scale on costs and believe that the underlying business model could support an operating margin of some 48-50%.

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.

AZELIO – BUY TP SEK 30

Azelio is a Swedish Cleantech company offering a system that provides solar power on demand in a reliable and dispatchable manner – ultimately efficient overnight energy storage – thereby solving one of the major challenges with traditional solar power (intermittency). The system offers competitive economics relative to diesel-based gensets and solar photovoltaic (PV) panels + batteries in its target markets and has received strong customer interest ahead of the expected scale roll-out in 2020-21E. Operationally, the main event in 2019 will be the start-up of the verification project for the full system in Morocco scheduled for Q4. Another trigger over the next 6-12 months will likely be securing the additional funding required to reach positive cashflow, which we already account for in our target price and expect will be a straightforward process provided the company continues to deliver on its communicated plans. The share remains below the SEK 22 IPO price, and given the potentially transformational product we see this as a high-risk case but with significant share price upside from current levels.

IPC – BUY, TP SEK 55

IPC has underperformed the E&P sector during the summer as the share is relatively highly geared to the oil price after the two acquisitions in Canada in 2017 and 2018 (Suffield and Blackpearl) – falling nearly 20% in August alone. The oil price will likely continue to set the direction for the share over the coming year – we expect the direction for oil to be up – and ultimately the recent sell-off means investors can now buy IPC at below 0.6x our estimated YE’19e NAV and 3.0x EV/OCF. In our view, this is highly attractive for the Lundin Group’s official vehicle for M&A-driven growth in the E&P sector. Our estimated YE’19e NAV for IPC is SEK 59/share which underpins our target price of SEK 55.

SECU – BUY, TP SEK 184

We expect Securitas to continue to benefit from strong underlying demand of its services across most of its markets. The company grew organically by 7% in the first quarter. The electronic security offering is showing strong growth in the range of 15-20% and is now accounting for 1/5 of total group revenues. Also, Securitas has initiated several efficiency programs which, together with the rising share of electronic security solutions sales should enable further margin expansion. In our view, Securitas has a defensive profile with a good growth profile.