Pareto Securities AB Equity Research

Equity Portfolio Sweden
1 Nov 2017

November portfolio

Sector

Investment Strategy

Our model portfolio was up 5.3% in October, while the OMXSGI benchmark index was up 2.1% during the same period. Year to date, our portfolio is up 25.7% while OMXSGI is up 12.6%. For November we keep 7 of 10 stocks, replacing Billerud, Elekta and SCA with Telia, Securitas and Magnolia.

October portfolio

Our monthly portfolio was up 5.3% in October, while our benchmark index (OMXSGI) was up 2.1%; a relative outperformance of 3.2%. 7 out of 10 stocks beat the benchmark index: Mr Green, Kindred, SCA, Fabege, Billerud, Catena Media and International Petroleum Corporation (IPCO). Year to date, our portfolio is up 25.7%, while OMXSGI is up 12.6%; a relative outperformance of 13.1%.

3 new stocks in our November portfolio

In our November portfolio we keep Catena Media, Fabege, IPCO, Kindred, Mr Green, SOBI and Victoria Park. We replace Billerud, Elekta and SCA with Telia, Securitas and Magnolia. Telia is looking increasingly attractive. Following the recent divestments in Megafon and its direct holding in Turkcell the balance sheet has rapidly strengthened. We believe the improvement presents an excellent opportunity for the company to start raising its dividend from the current SEK 2.0 level. We are also confident in the upside potential for Securitas. The company delivered a solid performance in the third quarter with improving organic growth driven primarily by a continued strong performance in the US. We argue that Magnolia is misunderstood by the market currently and unfairly punished by the negative sentiment for co-op developers, given Magnolia's very limited exposure to the co-op market. In addition, the outlook for Q4 2017 and 2018 looks encouraging.

Portfolio

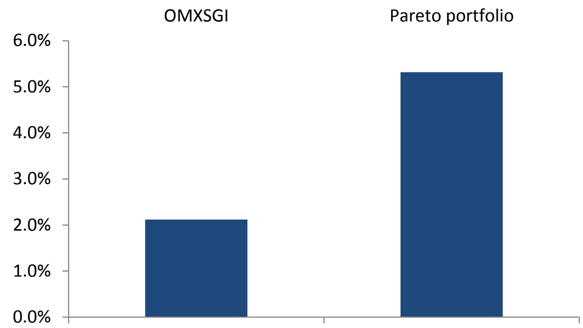
	Rec weight
TELIA	10 %
SECU	10 %
SOBI	10 %
FABG	10 %
VICP	10 %
MAG	10 %
IPCO	10 %
KIND	10 %
MRG	10 %
CTM	10 %
Sum	**100 %**

Performance

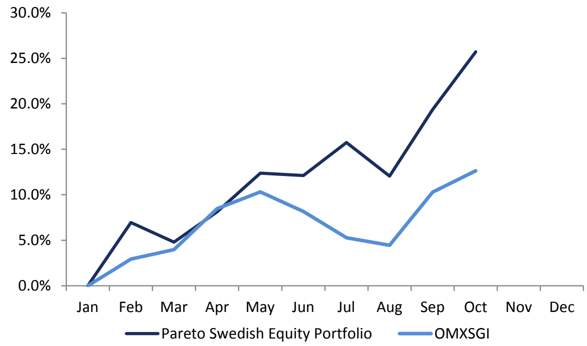
	Index Value 30/09/2017	Performance last period	Performance 2017 2)
Total Portfolio 1)	125.7	5.3 %	25.7%
OMXSGI 1)	112.6	2.1 %	12.6%

1) Rebased to 100 as per 01/02/2017 2) From 01/02/2017

Performance in October



Performance 2017 (YTD)



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SOBI – BUY, TP SEK 184

Sobi continues to deliver on the launch trajectory for its haemophilia products, but this is still underappreciated by the market. Valuation multiples are getting more attractive by the day. We also believe time will be on our side and that the market will gradually acknowledge that the near-term competitive threat from emcizumab from Roche is highly exaggerated, thus sales will not fall off a cliff in 2019. The first checkpoint will be the upcoming ASH conference where some data will be presented by Roche. Unfortunately, we are still a bit in the dark regarding the corporate strategy, but envisage a more M&A-geared agenda and that the main focus will be assets on or close to the market within speciality indications. Sobi ended the quarter with close to SEK 2bn in cash, but we believe Sobi could consider pursuing larger deals if the right asset turned up.

KIND – BUY, TP SEK 130

We view Kindred as the best online gambling operator in the Nordics as it consistently has outgrown the market in recent years as well as holds the highest share of regulated revenue. Kindred's Q3 report was strong; sales grew 36% y/y, of which 17% organic, explained by the strong sportsbook margin and strong underlying casino growth. Underlying EBITDA was 22% and 25% ahead of our and consensus estimates, respectively, due to higher sales, lower marketing costs and a higher gross margin. Q4 guidance was very strong, with sales up 68% y/y over the first 23 days of October as the sportsbook margin was 50% above normal (up 57% when excluding the acquisition of 32red). Kindred is well positioned ahead of FIFA 2018 and we have raised our estimates for 2017-2019 to reflect the higher sportsbook revenue and higher gross margin.

MRG – BUY, TP SEK 67

Mr Green is an online gambling operator with one of the strongest brands out there. Over the years, the share has been hurt by operational troubles, but having taken most of the technical platform in-house, the company started an operational turnaround last year and got back on the growth track, which the Q3 report continued to show. The company recently made a share issue of SEK 195m before fees which we believe will result in M&A in the upcoming months. After the strong Q3 report we raised our target price to SEK 67 (61).

CTM – BUY, TP SEK 113

Catena Media is one of the leading affiliate marketing companies within iGaming, driving the affiliate consolidation. With acquisition-driven growth and easy comparisons we expect strong growth ahead, not least in Q3 (report due 7 November). The ongoing revenue-model shift has punished growth short term but will bear fruit in 2018 , which is why we see a good entry point after weak share performance in recent months.

FABG – BUY, TP SEK 225

Fabege is one of our top picks in the real estate universe and we see significant short- and long-term potential in the share. The company has a history of impressive property value and NAV growth and we expect the positive development to continue in H2 2017 as well as in 2018 and 2019. The property value uplift comes primarily from hefty rental growth (renegotiated rental contracts were up 27% in H1 2017, 23% for the full year 2016) and from highly profitable commercial (office) property developments (54% ROI in H1 2017 and 60% in 2016, target is 20%). The latter triggers not only value growth but also increases the rental income and cash flows from the completed projects. The large building right portfolio coupled with a solid stream of large, new leases gives fuel for more projects to develop. We expect a strong ending to 2017 supported with solid Q3 and Q4 reports (the Q3 report is due on 19 October).

IPCO – BUY, TP SEK 47

International Petroleum Corporation is a recently launched Lundin Group E&P company with a strategy to act as a vehicle for acquisition-driven growth at a time when many other oil companies are under financial stress due to the low oil prices . IPCO announced in late September its first major acquisition of the Suffield natural gas and heavy oil assets in Canada in a fully debt-financed deal. Suffield will become the new cornerstone of IPCO's portfolio, and we view the transaction as NAV accretive for IPCO, which is not yet fully appreciated by the market. We recently raised out TP for IPCO to SEK 47, up from 40 prior to the acquisition. We expect IPCO's Q3 report due 7 November to show robust performance from the "base" assets in Malaysia and France, and tha the company will be able to share more information on the value-creation potential at Suffield.

VICP – BUY, TP SEK 37

We argue VICP offers material upside with both near- and long-term potential, where new property acquisitions are imminent triggers. We focus primarily on the extraordinary NAV growth coupled with a moderate risk profile. The clear focus on residential properties, in cities with population growth, implies low risk for vacancies and regulated rental levels effectively lowers the operational risk. Significantly higher rents upon completed renovations drive property values, and NAV, and we argue that the share trades at a significant NAV discount. We estimate meaningful cash earnings and NAV growth from recurring and structured refurbishment of apartments. We have a Buy recommendation and a target price of SEK 37.

MAG– BUY, TP SEK 120

We argue that Magnolia is misunderstood by the market currently and unfairly punished by the negative sentiment for co-op developers, given Magnolia’s very limited exposure to the co-op market. The latter part of 2016 and the first nine months of 2017 have been optimistic for the company in terms of strategic partnerships and smart acquisitions, although this has not yet been seen in earnings. The outlook for Q4 2017 and 2018 looks encouraging and we assume 2017 EPS of SEK 7.82, implying 33% growth y/y, and a further 70% growth in 2018 to SEK 13.29, meaning the share trades at a 2018E P/E of ~5x which is very attractive in our view, not least given the low-risk and capital-efficient business model. We recently reiterated our Buy recommendation and target price of SEK 120. Please note that Pareto Securities acts as advisor to the acquirer of Magnolia’s project Fasanen.

SECU – BUY, TP SEK 165

We remain confident in the upside potential for Securitas. The company delivered a solid performance in the third quarter with improving organic growth driven primarily by a continued strong performance in the US. But growth is also returning to the European business area after a couple of quarters with harsh comparisons from the migrations and terror impact from first half of 2016. In a longer term perspective we like the increasing share of solutions based sales which will continue to help raise the overall profitability of the group. Structurally demand for security services is likely to remain a growth sector over the foreseeable future. Securitas is a market leader in this expanding and still fragmented market which presents attractive growth opportunities for the company.

TELIA – BUY, TP SEK 44

Telia is looking increasingly attractive. Following the recent divestments in Megafon and its direct holding in Turkcell the balance sheet has rapidly strengthened. We believe the improvement presents an excellent opportunity for the company to start raising its dividend from the current SEK 2.0 level. We see room to grow the dividend towards the SEK 3-level over the next 2-3 years without meaningfully impact the already strong balance sheet. The net debt/EBITDA is coming down to 1.1x following the latest divestment of the remaining 19% in Megafon which will generate proceeds of SEK 8.6bn or SEK 2 per share. Additional distributions is in our view the easiest way for the company to compensate shareholders for the weak performance over the past couple of years and should be at the very top of the agenda.