# November portfolio

**Sector** **Investment Strategy**

***The Swedish equity market performance in October reflected the global sentiment shift to a more negative stance during the month, as second waves of the Covid pandemic picked up speed in several major countries and rattled financial markets. From trading near all-time-high levels in the beginning of October, our Swedish OMXSGI benchmark declined 6.5% during the month. Our portfolio outperformed the benchmark by declining a more modest 2.4%. Azelio had another very strong month and gained 27% after positive verification results for its energy storage technology. Lundin Mining (+8%), Embracer (+4%) and SKF (-1%) also contributed to the outperformance. IPC (-19%) continued to underperform driven by weaker oil prices. For November, we make one change to our portfolio: we remove Lundin Mining after strong performance in October and add the telecom operator Tele2.***

### October portfolio in review

The Swedish equity market has seen an impressive recovery since April, but this stalled in October after a resurgence of the Covid pandemic in several large European countries increased the risks to economic growth in 2021. The US Election (3 November) and its implications for further stimulus packages also likely contributed to the more cautious market sentiment during the month. The OMXSGI benchmark declined 6.5% and our portfolio outperformed by declining a more modest 2.4%. Our portfolio is now up 15.1% YTD, while OMXSGI is back in negative territory YTD (-1.8%). The outperformance in October was driven by Azelio (+27%), Lundin Mining (+8%), Embracer (+4%) and SKF (-1%).

### We make only one change for November

For November, we make one change to our portfolio. We remove Lundin Mining after strong share price performance in October and we add the telecom operator Tele2.

Tele2 delivered a solid Q3 report with stability in its consumer mobile business in Sweden and continued strong growth in the Baltics. We believe the company has a decent probability of beating its FY'20 guidance for flat EBITDA development. The gearing is currently below the target range. The ongoing efficiency program is expected to generate EBITDA growth in 2021 and we believe the company will be able to maintain an attractive dividend yield of 7-8% also for 2020E. The recent weakness in the share price, where the company has underperformed the broader European sector as well as its Nordic peers, presents a good opportunity to buy the share ahead of an expected strong finish to 2020 and a stronger performance in 2021 as compared with 2020.

### Portfolio

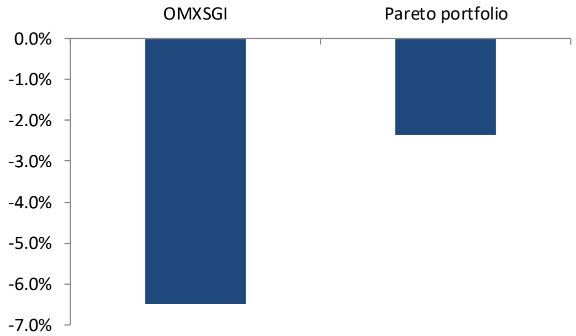
| | Rec weight |
|---|---|
| Sedana Medical | 10.0 % |
| SKF | 10.0 % |
| Vicore Pharma | 10.0 % |
| Azelio | 10.0 % |
| Qleanair | 10.0 % |
| Tele2 | 10.0 % |
| Embracer | 10.0 % |
| Magnolia | 10.0 % |
| IPC | 10.0 % |
| Millicom/TIGO | 10.0 % |
| **Sum** | **100%** |

### Performance

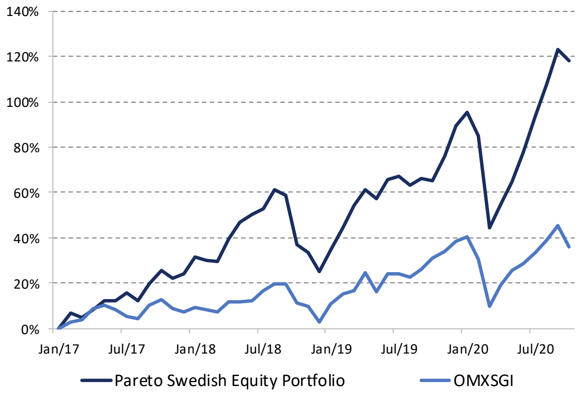
| | Performance | | |
|---|---|---|---|
| | October | YTD | Since start[1] |
| PAS Portfolio | -2.4% | 15.1% | 118.1% |
| OMXSGI | -6.5% | -1.8% | 36.0% |
| Relative performance | 4.1% | 17.0% | 82.0% |

[1] February 2017

### Performance in October




### Total performance (since February 2017)



**MAG – BUY, TP SEK 71 (under review)**
Magnolia Bostad delivered a stable third quarter with better underlying result in all regards. The company also increased the transparency regarding its self-management strategy ahead, something we view in as positive. Looking at the transaction market, the interest for residential properties is very high, and we think MAG, with >20,000 building rights in the project portfolio, is in a solid position to benefit. The share is trading at an attractive P/B multiple of 1.4x for 2020E, which is more than 40% discount to JM, and we think there is a high possibility for substantial excess value in the building rights portfolio.

**QLEANAIR – BUY, TP SEK 65**
QleanAir is a provider of indoor premium air cleaning solutions, offering technology to protect people, products, and processes from air pollution. QleanAir started as a provider of smoking cabins but developed its core technical platform into two new primarily non-smoking-related divisions in 2015, Facility Solutions and Room Solutions, providing clean air to logistics/industries and hospitals/pharma, representing 22% of sales in 2019 and growing to an estimated 26% of sales in 2022.Organic growth has been 15% over the last 20 years, and we expect 10% growth through to 2022, supported by strong environmental trends for clean air. A unique rental model and outsourced production support a capital-light business model with high EBIT margins of close to 20%. We see a reasonable valuation of EV/EBIT 10 for 2022 equivalent to a target price of SEK65.

**TIGO – BUY, TP SEK 401**
Millicom delivered a strong Q3 report with a significant improvement over Q2. Record strong intake in prepaid mobile customers as well as in homes connected looks promising for the future. The company is well on track to meet, and possibly exceed, its target for a flat operating free cash flow for 2020. We believe the Q4 results will show a continuation of positive recovery in mobile and cable. Millicom is among the weakest performers in the telecom space YTD. The valuation is at the very low end of the sector. We believe the share has good potential to outperform as growth rates starts to improve and the leverage continues to come down.

**EMBRAC – BUY, TP SEK 201**
Q2 20/21E (out 18 November) will not be as strong as Q1 20/21, neither will Q3 20/21E, while we expect Q4 20/21E to be the busiest quarter of the year with new records being set. Meanwhile, M&A firepower of SEK 10-12bn allows for sizeable valuation arbitrage although we won't rule out that Embracer is willing to pay up for quality assets that will help it reach even higher levels in the medium/long term. The M&A pipeline has expanded fast in recent months with around hundred ongoing discussions across its seven operating units and with a structure to easily integrate bolt-on acquisitions and new operating units, almost anything can happen even in the short term and at accretive multiples. Given a +140 project strong games pipeline allowing for strong organic growth in coming years, vast M&A pipeline and shares still to be discovered by international investors we expect EMBRAC to perform well in an absolute and relative perspective. The Gaming sector is also one of few winners of reaccelerating COIVID-19 cases and player activity has already started to increase as can be seen on Steam statistics.

**SEDANA – BUY, TP SEK 400**
Sedana's product AnaConDa is well placed to treat patients suffering from COVID-19 in the ICU setting. Several studies have demonstrated that volatile anaesthetics like isoflurane modulate pulmonary inflammation in acute respiratory distress syndrome (ARDS), which is associated with the new virus. While the direct impact of COVID-19 has tapered off, the crisis will have advanced Sedana's position in the market substantially also for the longer term, in our view. In July, Sedana announced a positive top-line result for its pivotal phase III study of IsoConDa. On the back of this, Sedana will move ahead with its application for European market approval. The analysis of the more important secondary endpoints is ongoing, and results are planned to be published in a peer-review publication in early 2021. Q3 is usually a relatively weak quarter, so we feel confident that Sedana will achieve the 40% Y/Y sales growth that we predict for Q3, especially in the current unusual environment.

**AZELIO – BUY, TP SEK 50**

Azelio's commercial verification process with DNV-GL delivered initial results in October, extending the positive trend for Azelio's share established since April. With several new MoU's announced in recent months it is now full steam ahead on several fronts preparing for the serial production ramp-up from Q3 2021E. The next main event we expect is the first commercial delivery and installation, which could happen before year-end. Azelio recently raised SEK 270m in new equity which secured funding until Q3 2021E. Based on the massive potential for efficient long duration energy storage such as Azelio's system, we see share price upside beyond our target price of SEK 50 as the technology is further de-risked and established in the market over the coming years.

**VICO – BUY, TP SEK 51**

Vicore Pharma is a Swedish biotech company developing first-in-class drugs against fibrotic lung diseases such as idiopathic pulmonary fibrosis (IPF), for which the median survival is around 3-5 years after diagnosis when using current treatment options (two drugs by Roche and Boehringer Ingelheim – combined sales of USD 2.8bn in 2019). The first patient dosed with the lead drug VP01 in the IPF phase II study was announced in September and we expect clinical data from VP01 in Systemic sclerosis patients with Raynaud's phenomenon in Q4. In addition, VICO's lead drug is interacting as anti-inflammatory agent directly within the system that is impaired by Covid-19, which plays a key role in the lung inflammation observed in Covid-19 patients. Therefore, Vicore initiated a potentially pivotal (conditional or emergency approval possible) phase II clinical trial in the UK and India and results are expected in Q4.

**SKF – BUY, TP SEK 250**

We believe that SKF's focus on improving efficiency over the past five years is paying off. The Q2 charges are part of this process – SKF is taking advantage of the downturn related to COVID-19 to quickly introduce cost-cutting and streamlining initiatives in order to lift margins. Significant CAPEX increases in factory automation and a focus on higher efficiency with a significant boost from measures taken in 2020 should lift EBIT-margins above its 12% margin target when volumes recover in 2021e and 2022e. In both absolute and relative terms, SKF is attractively valued. We see an EV/EBIT of 10x as reasonable for 2022. Our EBIT-estimates are 6%, 8%, and 6% higher than Consensus for 2020-2022. We lifted our target price to SEK 250 (SEK 205) after a very impressive Q3-report and reiterated our Buy rating.

**IPC – BUY, TP SEK 32**

As the COVID-19 pandemic hit markets in late Q1'20, IPC took significant measures to scale back on its production and development plans for 2020 to shore up liquidity. Oil prices have now recovered since their April lows and IPC demonstrated in the Q2 report that the measures taken have had the intended effect, as cash flow was protected during the period. We expect the Q3 report in November to provide a similar picture. From a liquidity perspective, we now estimate YE'20 net debt of USD 281m, down from USD 306m before the Q2 report, and we see the liquidity headroom under IPC's credit facilities having troughed. The IPC share is highly geared to the oil price, and the share has underperformed since late summer, increasing the risk/reward, in our view.

**TEL2 – BUY, SEK 145**

Tele2 delivered a solid Q3 report with stability in its consumer mobile business in Sweden and continued strong growth in the Baltics. We believe the company has a decent probability of beating its FY'20 guidance for flat EBITDA development. The gearing is currently below the target range. Ongoing efficiency program is expected to generate EBITDA growth in 2021 wherefore we believe the company will be able to maintain an attractive dividend yield of 7-8% also for 2020E. The recent weakness in the share price, where the company has underperformed the broader European sector as well as its Nordic peers presents a good opportunity to buy the share ahead of an expected strong finish to 2020 and a stronger performance in 2021 as compared with 2020.