

## October portfolio

*The Swedish equity market continued its impressive recovery in September with key indices now back close to the all-time-high levels seen earlier in the year, before Covid-19. However, the momentum is more modest now than during the summer period, with concerns around second waves of the pandemic and the robustness of the economic recovery regularly resurfacing. Our portfolio gained 6.9% in September while the OMXSGI benchmark gained 4.4%, resulting in an outperformance of 2.5% for our portfolio. Azelio had a strong month and gained 35%, with Fabege (+18%), Telia (+11%) and Vicore Pharma (+10%) also contributing to the outperformance. Our natural resources holdings IPC (-9%) and Lundin Mining (-8%) had a tougher month. For October, we make two changes to our portfolio: we take profit in Fabege and Telia after strong performance and replace these with SKF and Magnolia Bostad.*

### September portfolio in review

The Swedish equity market recovery since April has been impressive, with key benchmarks now back near pre-Covid all-time-highs. In September, the OMXSGI benchmark which gained 4.4% and our portfolio gained 6.9%. Our portfolio is now up 17.2% YTD. The outperformance in September was driven by Azelio (+35%), Fabege (+18%), Telia (+11%) and Vicore Pharma (+10%).

### We make two changes for October

For October, we make two change to our portfolio. We remove Fabege and Telia after strong share price performance and we add SKF and Magnolia Bostad.

We believe that SKF's focus on improving efficiency over the past five years is paying off. 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 view the temporary share-price setback after the Q2 report as an excellent opportunity to invest in a structural improvement. Magnolia Bostad delivered its best quarterly report to date in Q2 2020, and we argue there is potential for strong sales momentum in H2 2020 as well. The interest for residential properties is high, and we think MAG, with 16,500 building rights in the project portfolio, is in pole position to benefit. Other positives include new bond financing in place, a recent impressive JV with Heimstaden Bostad and Derome and an increased focus on properties for self-management. The share is trading below 2x book value for 2020E, and we think there is a high possibility for substantial excess value in the building rights portfolio.

## Sector

## Investment Strategy

### Portfolio

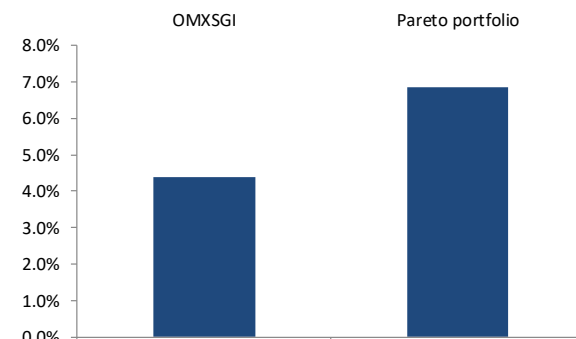
	Rec weight
Sedana Medical	10.0 %
SKF	10.0 %
Vicore Pharma	10.0 %
Azelio	10.0 %
Qleanair	10.0 %
Millicom/Tigo	10.0 %
Embracer	10.0 %
Magnolia	10.0 %
IPC	10.0 %
Lundin Mining	10.0 %
<b>Sum</b>	<b>100%</b>

### Performance

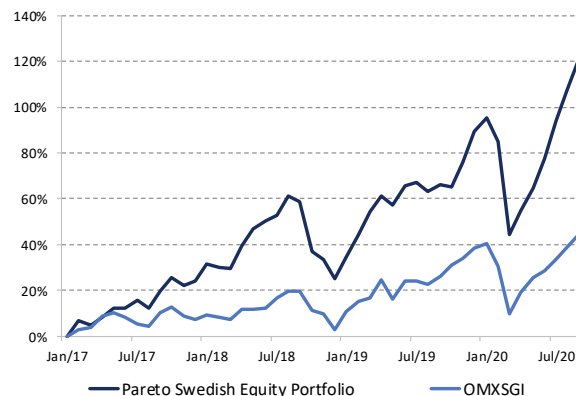
	September	YTD	Since start <sup>(1)</sup>
PAS Portfolio	6.9%	17.2%	122.0%
OMXSGI	4.4%	4.7%	45.0%
Relative performance	2.5%	12.5%	76.9%

<sup>(1)</sup> February 2017

### Performance in September



### Total performance (since February 2017)



**MAG – BUY, TP SEK 70**

Magnolia Bostad (MAG) delivered its best quarterly report to date in Q2 2020, and we argue there is potential for strong sales momentum in H2 2020 as well. When viewing the transaction market, the interest for residential properties is very high, and we think MAG, with 16,500 building rights in the project portfolio, is in pole position to benefit. Other positives include new bond financing in place, a recent impressive JV with Heimstaden Bostad and Derome and an increased focus on properties for self-management. The share is trading below 2x book value for 2020E, 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 437 (USD 49)**

Millicom is present in nine Latin American markets, offering mobile and fixed broadband services. These markets experience strong population growth and a rising average household income level. The region experiences modest 4G mobile and fixed broadband penetration rates. We expect a growing middle class will demand more broadband services. Millicom is well-positioned to benefit from these market trends. The markets are coming out of hard lockdowns in response to COVID-19. We believe Millicom is well positioned to handle the current turmoil and has potential to emerge even in a stronger position once the economic activity recovers. The share is trading at multi-year lows and has underperformed both its Latam and international peers. We believe there is significant potential in the Millicom share over the next twelve months.

**EMBRAC – BUY, TP SEK 180**

We have yet to publish our Q2 2020/21 preview (quarterly report due out 18 November) and at present we only expect to make minor estimate changes as stronger than expected performance in certain operating units seems to compensate for somewhat slower than expected performance elsewhere. We will also incorporate the recently announced acquisition for Vertigo Games to our estimate that preliminary will add 1-2% and 5-6% to operational EBIT for current fiscal year and 2021/22. With regards to games releases will October be relatively quiet with only two mid-sized new releases planned in Milestone's Ride 4 and THQ Nordic's Aquanox projects. Still, we believe October can turn out to be eventful with possible new project announcements and further accretive M&A. The M&A pipeline has expanded fast in recent months as the Saber team has built a long list of potential M&A targets and the founder of Deca Games seems equally committed to grow the mobile arm of Embracer. We estimate Embracer could raise SEK 3.5-4.0bn in debt for M&A, with a 10% equity issue mandate adding an extra SEK +6bn; thus sizeable M&A deals are possible. 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.

**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. Thus, the demand for AnaConDa is strong, reaching ATH sales in Q2'20, and exceeded SEK 100m in sales for rolling 12-months. While the direct impact of COVID-19 is likely to taper 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. The study reached its primary endpoint, which was to show the safety and efficacy of IsoConDa (isoflurane) administered through AnaConDa (anaesthetic delivery system) and that it is not inferior to propofol. On the back of the results, 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 early 2021. The somewhat tepid share price development since presenting the clinical results provides an excellent buying opportunity in this uniquely positioned Medtech company.

**AZELIO – BUY, TP SEK 32**

Azelio's commercial verification process with DNV-GL is ongoing and we expect initial results during Q4. Further, with several new MoU's announced in recent months it is full steam ahead on several fronts preparing for the production ramp-up from Q3 2021E. Azelio recently raised SEK 270m in new equity which secured funding until Q3 2021E, and this was done at better terms than we had expected, which led us to raise our target price to SEK 32 (30). 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 as the technology is further de-risked, with the next key trigger being the verification results. **Please note that Pareto Securities acted as Joint Bookrunner in Azelio's recent equity issue.**

**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 230**

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 recently lifted our target price to SEK 230 (SEK 205) and reiterated our Buy-rating. We view the temporary share-price setback after the Q2 report as an excellent opportunity to invest in a structural improvement.

**IPC – BUY, TP 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. 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 toughed. Our YE'20e riskd NAV is SEK 37/share, meaning the share currently trades at ~0.4x NAV. The IPC share is highly geared to the oil price, leading us to see upside over coming months.

**LUMI – BUY, TP 60**

Lundin Mining is a mid-sized base metals mining company with assets in Europe, South America and North America. Copper is the main commodity produced, followed by zinc and nickel, with gold and lead being important by-products. Key metal prices are improving, and we see fundamental support for further gains for both copper and gold. Our positive view on LUMI is based on the company approaching the end of investment phases at key mines Candelaria, Neves-Corvo and Eagle which should lead to a decrease in capex and increase in production and cash flow from 2020E. Our YE'20E NAV(10%) stands at SEK 60/share based on metal price assumptions near current market prices. LUMI recently reported that critical processing equipment (motors) at its Chapada mine in Brazil have been damaged after protection systems failed after a power outage, which is estimated by the company to lead to a 60-day production disruption at the mine (half of Q4). A setback for the share at the end of September, but with only modest impact on the investment case in our view.