

April portfolio

March was a strong month for the Swedish equity market as the positive global economic outlook was the dominating theme, ahead of concerns related to increasing long-term interest rates and high equity valuations. Overall, the OMXSGI benchmark gained an impressive 8.2% in March. Our portfolio underperformed and gained a more modest 1.2% during the month, with the underperformance mainly being driven by our four Life Science holdings trading lower during the month (Vicore Pharma, Bioinvent, Sedana Medical and Swedencare). We make three changes for April: we add ABB, Kindred and Etrion, and we remove Vicore Pharma, Sedana Medical and International Petroleum Corporation (IPC).

March portfolio in review

The Swedish equity market continued higher during March, especially during the first half of the month. After a period in February when focus was on high equity valuations and the risks related to increasing interest rates, this reversed in March and the strong economic recovery anticipated for 2021 was the dominant theme again (combined with sector rotation). Overall, the OMXSGI benchmark gained 8.2% in March, while our portfolio underperformed during the month and gained only 1.2%. Four stocks contributed to the underperformance: Vicore Pharma (-14.5%), Bioinvent (-9.2%), Sedana Medical (-8.5%) and Swedencare (-1.9%), while the remaining stocks performed in line with the benchmark.

We make three changes for April

We make three changes to our portfolio for April. We add ABB, Kindred and Etrion, and we remove Vicore Pharma, Sedana Medical and International Petroleum Corporation (IPC).

For ABB, we expect significant savings to come through in 2021 and 2022, and as a result we expect a gradual improvement in margins from 13.6% in 2021, 14.8% in 2022, and 15.5% in 2023. We expect that each quarter that ABB is showing an improved margin trend will impact the valuation positively, starting from Q1 2021.

We argue that consensus for Q1 is too low for Kindred and see potential for the company to positively adjust expectations ahead of the report. According to our data and sources, the strong momentum from Q4 2020 has continued, with strong activity both in casino and sports betting.

Etrion is in the process of divesting its portfolio of solar parks in Japan with an aim to distribute the cash to shareholders. On 31 March, sales agreements were announced for three of its four operational solar parks in Japan for USD ~75m in total, which means only the fourth operational park and one development project remain to be sold. We expect announcements regarding these two remaining assets within the next few months, potentially weeks, and we see further upside to the share during the divestment and distribution process. We expect the majority of the cash to be distributed during Q3 2021.

Sector

Investment Strategy

Portfolio

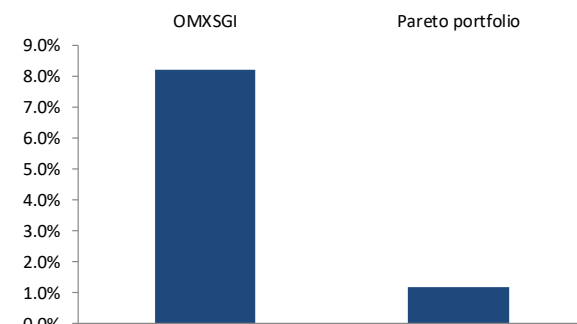
	Rec weight
ABB	10.0 %
SKF	10.0 %
Kindred	10.0 %
Bioinvent	10.0 %
Jetpak	10.0 %
Etrion	10.0 %
Embracer	10.0 %
Millicom/Tigo	10.0 %
Storytel	10.0 %
Swedencare	10.0 %
Sum	100%

Performance

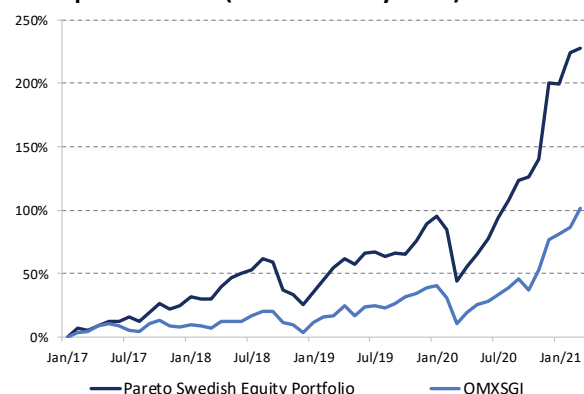
	March	YTD	Since start ⁽¹⁾
PAS Portfolio	1.2%	9.3%	228.3%
OMXSGI	8.2%	14.3%	101.6%
Relative performance	-7.0%	-5.0%	126.7%

⁽¹⁾ February 2017

Performance in March



Total performance (since February 2017)



TIGO – BUY, TP USD 58

Following its Q4 results in February, we conclude that Millicom finished 2020 in a strong fashion. The customer intake accelerated in the fourth quarter, cash flow generation remained strong and opex reductions continued to improve EBITDA margins. We believe Millicom is well positioned to delivered both topline and EBITDA growth that motivates a richer valuation during 2021. The company will continue to reduce debt which should have a major impact on the equity valuation. If the economic recovery continues, we believe buybacks could be resumed during the second half.

JETPAK – BUY, TP SEK 105

Jetpak is the leading Nordic provider of time-critical premium express delivery services, operating in the Express Ad-hoc and Express Systemized segments. Jetpak's dominant position in the Nordic region with some 80% market share in ad-hoc express air freight is a vital competitive advantage when growing the market potential for ad-hoc services, not only in the Nordic area but also internationally. Jetpak expects that a stronger focus on international expansion, including M&A, will lift growth to 5-8% per year, supported by the fact that Jetpak has excellent customer relationships with a large base of global Nordic industrials and pharmaceutical companies. Jetpak is cautious about Q1 2021 and expects flat to slightly negative organic sales growth due to less availability of air freight flights and the execution of fewer low-margin contracts. However, we see Jetpak as a winner from removed lockdowns and see improved air freight access from Q2-Q3 2021E to lift the mix and margins. Also, we expect more acquisitions in 2021 and that the international expansion will drive growth from 2022.

SECARE – BUY, TP SEK 550

Swedencare ended 2020 on a high note with robust sales growth and margins. Increasing cross-selling opportunities, geographical expansion and higher online sales will be the key drivers of the growth. The new financial objectives are challenging but inspiring as they signal considerable upside potential in the coming years. The new sales objective of SEK 2bn by 2025 was substantially higher than our expectation of SEK 1.0-1.5bn. The company expects the goal to be achieved primarily through organic growth, prompting us to lift our growth assumptions. We now forecast a sales CAGR of 25% from the current run-rate of SEK 550m over 2025, implying that we project sales in 2025 to be SEK 1.3bn. Thus, we expect Swedencare to continue with its M&A agenda (most recently exemplified by the acquisition of the US company RxV Enterprises). The company also lifted its EBIT margin goal to 30% from 25% previously. We now forecast the EBIT margin in 2025 to be 30.6%, implying EBIT of SEK 410m, which may be too conservative given that Swedencare is targeting SEK 600m.

EMBRAC – BUY, TP SEK 290

The Q3 2020/21 results beat consensus operational EBIT estimates by 17%, supported by strong back catalogue games sales and high digital share of sales. The coming financial year is expected to be the strongest year ever in terms of release activity with more than 70 premium game development projects. Embracer reiterated that M&A activity remains high across the group for bolt-on acquisitions, where we estimate Embracer to have M&A firepower of SEK 11-13bn. We argue that the likelihood for further M&A is high in the short term. As the Q3 2020/2021 results were strong and acquisitions accretive we expect investors to continue to buy this compounder in 2021.

ABB – BUY, TP SEK 320

ABB has significantly changed its structure in recent years by disposing of Power Grids for USD11bn and scrapping its old complicated matrix model. The new CEO, Björn Rosengren, has taken another step forward by further decentralizing the company by creating 20 new divisions from July 2020. We expect significant savings to come through in 2021 and 2022, and ABB's target is to reach an EBITA-margin of more than 15% in 2023. We expect a gradual improvement of margins from 13.6% in 2021, 14.8% in 2022, and 15.5% in 2023. We expect that each quarter that ABBs is showing an improved margin trend will impact the valuation positively. We see a higher valuation potential relative global electrical engineering companies. EV/EBIT 2022 is 14 for ABB versus 19 for other global peers in the electric, automation and robotics sector.

BINV – BUY, TP SEK 75 (target under review)

BioInvent is a immuno-oncology company with currently 4 first- or best in class drugs in clinics and a catalyst-rich year ahead. The company just released data from its Ph1/2a dose escalation trial of BI-1206 + Roche's Rituximab which attracted Redmile Group, a top 10 US healthcare specialist fund to invest in the recent share issue and become the largest shareholder of BioInvent. The same program was already key in convincing specialist investors in 2020 and before, which include: Invus, Van Herk, HBM, Omega funds and pharmaceutical companies Pfizer and Casi Pharmaceuticals – which also have collaborations with the company. BI-1206 + Rituximab led to partial responses in 6/9 patients (67% response rate) of which 2 follicular lymphoma patients became complete responders – including patients from suboptimal doses. In consideration of the patient characteristics, especially the line of treatment, the data compares well against competitors such as Gilead, Roche and IGM Biosciences (which saw its mcap sustain an over USD 1bn gain on inferior data). In January, the target of BI-1206 was further validated in solid tumors by Novartis paying USD 655m upfront, 1.55 bn in milestones + royalties for BeiGene's tislelizumab, a molecule surrounding the same mechanism. BioInvent's valuation is likely related to the general market inefficiency observable in Swedish early-stage biotech. We believe this presents an excellent opportunity to start a position as the company has now transformed itself from a more research-data releasing company to a fully clinical-stage biotech with clinical proof of concept (PoC) of its lead drug, a likely increasing attention from international investors and a potential multifold upside.

KINDRED – BUY, TP SEK 171

We argue that consensus is too low on the Q1 estimates for Kindred and expect the company to positively adjust its expectations ahead of the Q1 report. According to our data and sources, the strong momentum from Q4'20 has continued, with strong activity both in casino and sports betting. We expect the sports book margin to be strong, but more normalized during the quarter. We further argue that consensus is too low on the longer-term estimates (2022-2023E), being too aggressive on the marketing spend as a share of sales. We see room for positive estimate and multiple adjustments in the medium term.

SKF – BUY, TP SEK 280

We believe that SKF's focus on improving efficiency over the past five years is paying off. The 2020 charges are part of this process – SKF has taken advantage of the downturn related to COVID-19 to introduce cost-cutting measures quickly and streamlining initiatives to lift margins. Significant CAPEX increases in factory automation and a focus on higher efficiency with a considerable boost from measures taken in 2020 should lift EBIT-margins above their 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 7% and 6% higher than the Consensus for 2021-2022.

STORY – BUY, TP SEK 390

Storytel is benefitting from strong demand for its streaming audiobook service, both in the domestic Nordic footprint as well as in the 16 markets outside the Nordic region. The Q4 report was broadly in line with our expectations. Streaming revenues grew by 26% in the quarter. Higher sales & marketing costs in Non-Nordic caused an EBITDA loss of 23m. During the second half of 2020 Storytel made four acquisitions, launched new offerings and entered new markets. Guidance for 2021 includes streaming revenues of SEK 2.4-2.5bn. The subscriber based is expected to grow by about 700k, to 2.1-2.2m. We are convinced that the company has improved its position even further and believe that this will help drive strong subscriber intake in 2021.

ETRION – BUY, SEK 2.50 (target under review)

Etrion is an independent power producer with solar PV parks in Japan. The company is currently divesting its portfolio with an aim to distribute the cash to shareholders. On March 31, sales agreements were announced for three of its four operational solar parks in Japan (Komatsu, Shizukuishi and Mito) for USD ~75m in total (subject to certain adjustments at closing), which mean only the fourth operational park (Misawa) the Niigata development project remains in the portfolio. We expect announcements regarding these two remaining assets within the next few months, potentially weeks. The sales price for the three parks implies a yield to equity of ~2.5%. If we apply a similar valuation level for Misawa and 5.0% yield for Niigata (given construction phase), we expect Etrion to have cash available for distributions of USD 140-150m (SEK 3.60-3.90/share) after the transaction complete. While there is some uncertainty regarding timing of distributions and costs incurred until then, and local capital gains tax apply for investors, we see further upside through the divestment and distribution process. We expect the majority to be distributed during Q3 2021. (There is also a tax case in Italy which could lead to a refund for Etrion and thus be positive).