January Portfolio

Sector Investment Strategy

Our model portfolio was up 1.7% in December, while the OMXSGI benchmark index was down 1.2% during the same period. In 2017 (Feb-Dec), our portfolio achieved a total return of 24.0%, compared to 7.4% for the OMXSGI. For January 2018 we keep 5 of 10 stocks, replacing Magnolia, Getinge, Sobi, Nobina and Stora Enso with Volvo, Millicom, Zalando, Lundin Petroleum and Victoria Park.

December portfolio

Our monthly portfolio was up 1.7% in December, while our benchmark index (OMXSGI) was down 1.2%; a relative outperformance for our portfolio of 2.9%. 6 out of 10 stocks beat the benchmark index: Nobina, Hufvudstaden, Stora Enso, Kindred Group, Mr Green and Catena Media. In 2017 (Feb-Dec), our portfolio achieved a total return of 24.0%, compared to 7.4% for the OMXSGI; a relative outperformance for our portfolio of 16.6%.

5 new stocks in our January portfolio

In our January 2018 portfolio we keep 5 of 10 stocks, replacing Magnolia, Getinge, Sobi, Nobina and Stora Enso with Volvo, Millicom, Zalando, Lundin Petroleum and Victoria Park. Volvo has in our view been excessively punished in recent trading days after the ownership change (Geely buying Cevian's shares), which has opened up for an attractive opportunity. We initiated on both Millicom and Zalando in December 2017, and view both as attractively valued growth cases supported by structural trends (Latin American data traffic and European online fashion retailing, respectively). The Lundin Petroleum share has been weak in Nov-Dec despite what we expect has been strong operating performance, further accentuated by technical selling on the last trading day of 2017 due to exclusion from the OMXS30 index – we expect better performance in January leading up to the Q4 report on 1 February and CMD on 12 February. Victoria Park remains one of our top picks in the Real Estate sector, with a moderate risk profile. The share has largely traded sideways in 2H 2017 after very strong performance in 1H, and we see potential for another leg higher in 2018.

Portfolio

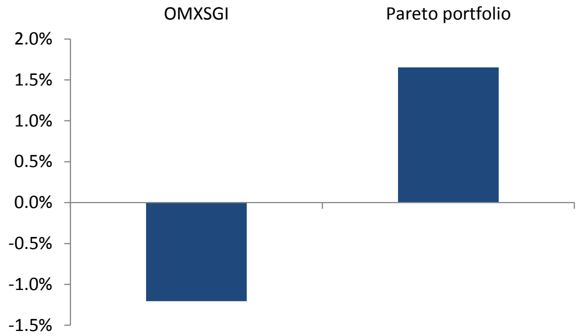
	Rec weight
Volvo	10%
Millicom	10%
Zalando	10%
Hufvudstaden	10%
Victoria Park	10%
IPC	10%
Lundin Petroleum	10%
Kindred	10%
Mr Green	10%
Catena Media	10%
Sum	**100%**

Performance

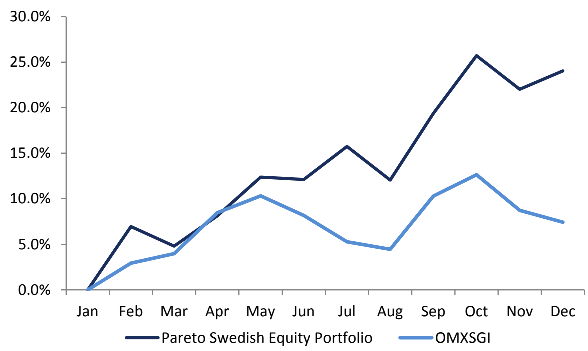
	Index Value 31/12/2017	Performance last period	Performance 2017 [2)]
Total Portfolio [1)]	124.0	1.7 %	24.0%
OMXSGI [1)]	107.4	-1.2 %	7.4%

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

Performance in December



Performance in 2017



KIND – BUY, TP SEK 130
We view Kindred as the prime online gambling operator in the Nordics as it consistently over the last years has outgrown the market as well as holding the highest share of regulated revenue. Kindred's Q3 report was strong on most accounts; 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. Guidance for Q4 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). Sports results in November and December have also been bookie friendly pointing to a strong sportsbook in Q4. 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. The marginal negative q/q FX effect we currently see for Q4 will not be able to derail the case.

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 in 2016 and got back on the growth track, which the Q3 report continued to show. Although the latest acquisition of Evoke Gaming will be slightly margin dilutive in 2018, we expect growth ahead to be strong.

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 2014-2016. IPCO announced in late September its first major acquisition of the Suffield & Alderson heavy oil and natural gas assets in Canada in a fully debt-financed deal. Suffield will become the new cornerstone asset of IPCO's portfolio, and we view the transaction as NAV accretive and under-appreciated by the market, not least in terms of cash generation potential already in 2018-2019e. IPCO has traded sideways in Q4 (as has the E&P sector in general), but we expect better performance in January as expectations rise ahead of the company's CMD planned for early 2018 (likely early February), when more information likely will be shared on Suffield.

HUFV – BUY, TP SEK 147
We upgraded to Buy (Hold) on Tuesday 28 November and increased our target price to SEK 147 (144) well ahead of the Q4 report due out 15 February 2018. The share has clearly underperformed the real estate index in 2017 and is now trading at an attractive NAV valuation. In addition, we believe it is smart to be long the stock ahead of, or over, the Q4 report since Hufvudstaden normally reports strong value changes in Q4. Despite limited support from yield contraction in the market, one could assume that the time-lag will support property book values further. In addition, the strong rental trend in Stockholm and Gothenburg for office space should provide support to value growth as well.

VICP – BUY, TP SEK 37
Victoria Park offers material upside with both near- and long-term potential, where new property acquisitions could be imminent triggers given that such transactions increases the long-term value creation the way we see it. We focus primarily on the extraordinary NAV growth coupled with the moderate risk profile. The company's clear focus on residential properties, in cities with population growth, implies low risk for vacancies and regulated rental levels effectively lowers the operational risk. This also means that Victoria Park is not affected by the shaky co-op market as the company's portfolio consists of rental apartments only. 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.

VOLV – BUY, TP SEK 190
On 27 December, Cevian Capital announced the sale to (Chinese) Geely of its entire 8.2% share capital and 15.6% voting rights in Volvo (terms not disclosed), making Geely the largest shareholder by capital and second largest by voting rights in the company. The Volvo share has depreciated the recent days, but has now been punished too much, in our view, and we anticipate a recovery. Volvo is reporting its Q4'17 numbers on 31 January and we expect the report to be decent and we maintain our bullish view on the share. We believe that Volvo still have been struggling with some supply chain issues within Trucks but that organic growth in both Trucks and Construction Equipment has been impressive.

CTM – BUY, TP SEK 125
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. Although we remain below the new financial target of EUR 100m in EBITDA in 2020, we expect margins ahead to trend upwards.

LUPE – HOLD, TP SEK 210
Lundin Petroleum has been under pressure since the Q3 report in early November, accentuated further by technical selling on the last trading day of 2017 as the share is being excluded from the OMXS30 index. We expect underlying operations have remained strong through Q4; in the Q3 report management provided upbeat comments on Grieg performance and expectations for the reserve update at year-end. Good operational performance combined with higher oil prices means pre-Sverdrup dividends is back on the table. We have a TP of SEK 210, corresponding to an EV of 10x the average annual FCF in 2020-2024e (at USD 60/bbl) – still a low valuation relative to majors. All in all, we expect LUPE to recover leading up to the Q4 report on 1 February and the CMD on 12 February.

MIC – BUY, TP SEK 650
We initiated on Millicom in December, 2017. The company has a strong mobile and fixed broadband footprint in Latin America where the growth in data traffic is developing strongly. Penetration rates for both 4G mobile services and fixed broadband connections remain at relatively low levels indicating good opportunities for growth over the next few years. We expect the remaining parts of its African businesses to be divested which will further strengthen the financial profile while at the same time improve its M&A profile by becoming a pure Latin American focused telecom services business.

ZAL – BUY, TP EUR 55
We initiated on Zalando with a Buy rating in December, 2017. We believe the company is well positioned to continue its strong customer and revenue growth also in 2018. Zalando has established a leading position in the rapidly expanding online segment of the European fashion retail market. Zalando has a 22m customer base, a strong brand and a good geographical coverage, all factors likely to enable the company to take additional market share over the next few years when the online segment continues to increase its share of the total fashion retail market in Europe. Q4 is a seasonally strong quarter for Zalando and the overall retail market. Hence we expect another quarter characterized by strong topline growth. The upcoming Q4 results will also entail the guidance for 2018 which we believe will be characterized by continued strong growth in revenue and earnings.