Pareto Securities AB Equity Research

Equity Portfolio Sweden

1 Jun 2021

June portfolio

Sector: Investment Strategy

The Swedish equity market traded largely sideways in May, with our benchmark (OMXSGI) ending the month up 2.4%. The very strong market recovery since April 2020 has taken a pause since mid-April, with high valuations and implications of higher inflation/interest rates being top of investors' mind. After underperforming our benchmark in March-April, May was a clear improvement for our portfolio which gained 6.4% during the month. IPC (+17%), BioInvent (+16%), Jetpak (+12%) and Millicom (+11%) were top performers, while tech had a tougher month. We make only one change for June: we add Volvo and we remove SKF.

May portfolio in review

After an impressive and almost uninterrupted one-year rally, the Swedish equity market has flatlined since mid-April, reflecting high valuations and focus shifting towards increasing inflation pressures and changing Central Bank (Fed) policy. Overall, the OMXSGI benchmark gained 2.4% in May, while our portfolio outperformed and gained 6.4%. IPC (+17%), BioInvent (+16%), Jetpak (+12%) and Millicom (+11%) stand out as top performers, and only two tech stocks in our portfolio underperformed the benchmark during the month (Embracer and Kindred).

We make one change for June

We make only one change to our portfolio for June. We add Volvo and we remove SKF.

In Q1 2021, Volvo once again proved that the company is not just enjoying booming demand for trucks but is also delivering excellent improvements in operational efficiency. We are maintaining our bullish scenario for Volvo Trucks arguing that better-than-consensus underlying development – excluding the negative semiconductor impact coming up in Q2 – will continue to drive positive earnings revisions. In addition, we see strong valuation support from a high dividend yield and low EV/EBIT multiples. We have Buy rating and a target price of SEK 300 for Volvo.

Portfolio

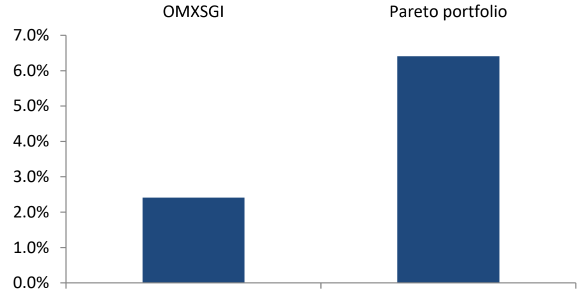
	Rec weight
ABB	10.0 %
Volvo	10.0 %
Kindred	10.0 %
BioInvent	10.0 %
Jetpak	10.0 %
IPC	10.0 %
Embracer	10.0 %
Millicom/Tigo	10.0 %
Storytel	10.0 %
Telia	10.0 %
Sum	**100%**

Performance

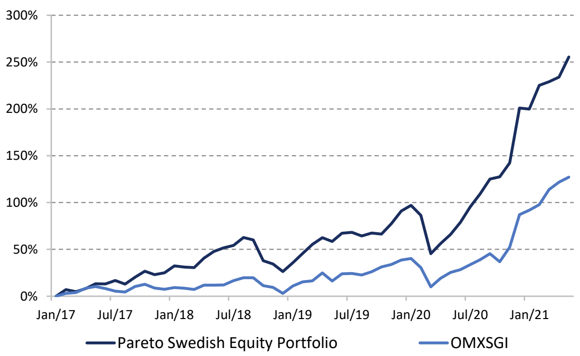
	Performance		
	May	YTD	Since start[1]
PAS Portfolio	6.4%	18.1%	255.5%
OMXSGI	2.4%	21.3%	127.1%
Relative performance	4.0%	-3.3%	128.4%

[1] February 2017

Performance in May



Total performance (since February 2017)



TIGO – BUY, TP USD 58 (SEK ~485)
Millicom finished 2020 in a strong fashion and we expect the company to build on this during 2021. The customer intake accelerated in the fourth quarter 2020, 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. 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.

IPC – BUY, TP SEK 36
IPC delivered net production of 43.7 kboe/day in Q1 which combined with good realized oil prices and cost control (opex/boe of USD 14.4, in line with guidance) resulted in beats across the board relative to our and consensus expectations. Operating cash flow in Q1 amounted to USD 68m, above the high end of the guidance range, and free cash flow was USD 49m compared to our expectation of USD 42m. A strong start to 2021 for IPC, and the company reiterates its scaled-back capex program for the year. As a result, the strong free cash flow generation should continue for the coming quarters. We consider IPC to be a well-run oil company and the share is highly geared to the oil price compared to peers, and we continue to view the risk/reward as attractive given the current momentum for oil prices.

EMBRAC – BUY, TP SEK 315
This current financial year is expected to be the strongest ever in terms of release activity with more than 90 premium game development projects. In the May (Q4) earnings report, Embracer reiterated that M&A activity remains high across the group for bolt-on acquisitions, with more than 20 late-stage M&A talks and few letter of intents signed. We argue that the likelihood for further M&A is high in the in the short term. As the Q4 results were strong with further room for accretive acquisitions we expect investors to continue to buy this compounder in 2021.

ABB – BUY, TP SEK 340
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, a level we expect to be passed already in 2022. We expect that each quarter that ABBs is showing an improved margin trend will impact the valuation positively. As a result, 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 115

BioInvent is an immuno-oncology company with currently four first- or best-in-class drugs in clinics. The lead drug BI-1206 +Rituxan demonstrated clinical proof of concept data in NHL suggesting possible similar efficacy as Gilead's toxic cell therapy Yescarta (>x8 as expensive as antibodies) while showing superior data to US competitor IGMS which saw its mcap increase by USD 1bn upon data release. Two 2021 pharma deals in the field validated BI-1206 and BI-1808 in solid tumours. The current low market value of BINV is likely a product of (i) a lack of understanding of preclinical and early clinical data and its implications in the highly complex field of immuno-oncology (ii) the company's long history and (iii) the non-blockbuster size of BI-1206 + Rituxan's primary market. We are confident that at least the latter two factors will be defused within the coming 12-months catalysed by a rich clinical data flow. As an example, US peer Mirati Therapeutics experienced a similar reaction to its initial clinical data, as the company was valued at USD 100-200m in 2017 upon early data releases which then gradually increased x40 to USD >8bn today.

KINDRED – BUY, TP SEK 221

Kindreds second quarter has started strongly with a daily average revenue in line with Q1'21, or 52% above the average of Q2'20, which is slightly stronger than expected. The momentum has continued both for the casino and sporting vertical, with a further boost expected from the EURO 2020 in June and July. We see room for further positive estimate and multiple adjustment in the medium term and continue to see Kindred as one of our sector favorites.

VOLVO – BUY, TP SEK 300

During Q1 2021, Volvo once again proved that the company is not just enjoying booming demand for trucks but also delivering excellent improvements in operational efficiency. We are maintaining our bullish scenario for Volvo Trucks arguing that better-than-consensus underlying development – excluding the negative semiconductor impact coming up in Q2 – will continue to drive positive earnings revisions. In addition, we see strong valuation support from a high dividend yield and low EV/EBIT multiples.

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.

TELIA – BUY, SEK 42

We believe Telia is on the right track to improve cash flow generation through a combination of growth initiatives and continued opex reductions. The Q1 results were, in our view, clearly a sign of improvement. However, weakness in Sweden caused a negative reaction to the share price. We believe Telia is well positioned to deliver absolute return over the next couple of months, regardless of overall market conditions and therefore is a good addition to our monthly portfolio.