June Portfolio

Sector **Investment Strategy**

May saw macro-economic concerns once again become top-of-mind among investors, accentuated by the ongoing confrontation between the United States and China which regained momentum. As a result, global and Swedish equity markets delivered weak performance in May, with our benchmark OMXSGI index returning -6.9% for the month. Our portfolio outperformed the benchmark and was down only -2.4%, with MIPS (+15.4%), Elekta (+9.7%), BioInvent (+9.3%) and Catena (+7.4%) significantly contributing. The oil stocks in our May portfolio (Lundin Petroleum and International Petroleum Corporation) underperformed as oil prices declined during the month. Overall, 5 of 10 stocks in our portfolio outperformed our benchmark index in May. For June, we keep 7 of 10 stocks in our portfolio; we replace MIPS, Getinge and International Petroleum Corporation with Kinnevik, Dometic and Azelio.

Portfolio

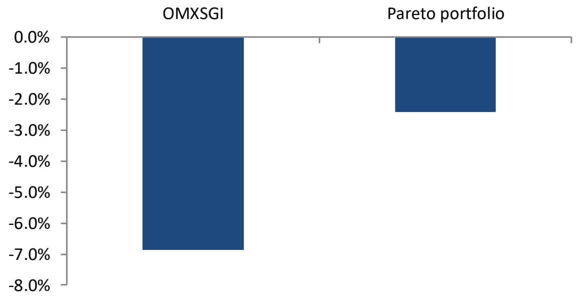
	Rec weight
Lundin Petroleum	10.0 %
Azelio	10.0 %
Catena	10.0 %
Dometic	10.0 %
BioInvent	10.0 %
Elekta	10.0 %
Storytel	10.0 %
ABB	10.0 %
Kinnevik	10.0 %
Volvo	10.0 %
Sum	**100%**

Performance

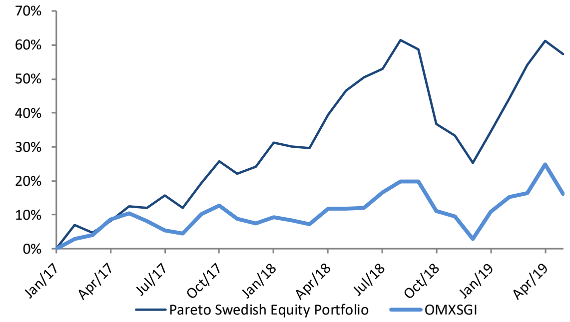
	Performance		
	May	YTD	Since start[1]
PAS Portfolio	-2.4%	25.6%	57.3%
OMXSGI	-6.9%	12.8%	16.2%
Relative performance	4.5%	12.7%	41.1%

[1] February 2017

Performance in May



Total Performance (since February 2017)



May portfolio in review

After a strong start to 2019, May was a tougher month for the Swedish equity market, with our benchmark declining 6.9% for a YTD performance of 12.8%, driven by deteriorating macro-economic sentiment. However, our portfolio outperformed the benchmark, declining only 2.4%, with MIPS, Elekta, BioInvent and Catena being key contributors to the outperformance.

Three new stock in our June portfolio

In our June portfolio we keep 7 of 10 stocks, replacing MIPS, Getinge and International Petroleum Corporation with Kinnevik, Dometic and Azelio.

We view Kinnevik as an attractive stock to own in the current market environment due to its strong portfolio of businesses in the e-commerce, telecom and media spaces.

Dometic's first CMD as a listed company was held on May 28 which left us reassured in our view of expanding margins and solid growth over the coming years. In the shorter term, we see a less negative impact from the ongoing inventory correction in the important North American RV industry as we progress into the second half of the year as retail sales has held up significantly better than shipments, resulting in decreasing overstocking.

Azelio remains below the SEK 22/share IPO price, and given the potentially transformational product – ultimately efficient overnight energy storage – we see this as a high-risk case with significant share price upside from current levels. Operationally, the main event in 2019 will be the start-up of the verification project for the full system in Morocco scheduled for Q4, ahead of scale roll-out expected in 2020-21E.

CATENA – BUY, TP SEK 265

Catena is unique, being the purest bet in the Swedish logistics space with a c. SEK 15bn portfolio. In addition, an impressive project portfolio ensures future growth options, making Catena one of a few real estate companies with in-house growth capabilities. Moreover, our view is that yields for Catena's prime assets are set to compress on the back of a strong market interest in logistics properties. The share weakness that followed the strong Q1 report is, in our opinion, a good opportunity to pick up a real estate company that is supported by the secular e-commerce trend. We have a Buy rating and a 12-month target price of SEK 265, including an estimated paid dividend of SEK 6.50 for 2019e.

KINV – BUY, TP SEK 290

Kinnevik has an unparalleled track record of creating strong business in the telecom and media spaces and has generated substantial returns to its shareholders over time. Its biggest holding, Zalando delivered a strong fourth quarter with a guidance for 2019 that was above market expectations. The medium-term outlook over the next five years is also promising and we continue to see significant upside in the Zalando share. The other two major assets in Kinnevik includes the telecom holdings Millicom and Tele2. Millicom is performing well and is expanding its footprint in the Latam markets. Tele2 has just finalized its acquisition of Com Hem and delivered its first quarterly results report as a combined company. Synergy targets were raised and divestment of non-core assets is likely to result in extra distributions to shareholders.

ABB – BUY, TP SEK 235

ABB is late cyclical and during 2018 we have seen a take-off in order intake for the industrial capex related divisions Robotics and Motion and Industrial Automation. Order intake in Q4 were up 11% in Robotics and Motion and 8% in Industrial Automation supported by a recovery in demand from mining, marine, oil and gas and not least general engineering. In Electrification base orders were increasing by 2% in Q3 reflecting a stable demand in construction. Thanks to the late cyclical demand, we expect ABB to deliver a stronger than expected 2019 and probably also 2020 and we think ABB is one of the best bets on that cycle. However, most important is that ABB will go through a major restructuring programme in 2019 and 2020 in order to both sell Power Grids to Hitachi in mid-2020 and also the significantly take down overhead costs by USD 500m from 2021. These measures are costly, but we are convinced that ABB will emerge as a more streamlined and cost-efficient company in 2021. ABB will also distribute USD 7.6bn to shareholders probably in the form of a very aggressive repurchase program in the second half of 2020.

EKTA – BUY, TP SEK 160

Elekta's positive sales and volume surprise in Q4 (reported in late May) together resulted in much improved gross margins. This triggered a healthy positive revaluation, which we expect has more to give. Sales looks excellent for both hardware and the Asia region which is likely to further reduce the gross margin concern going forward. We made a smaller positive revision after the report and point to improving share price support ahead. Elekta has entered the Unity harvest period..

VOLV– BUY, TP SEK 185

Despite decreasing order intake for Volvo Trucks in North America (which we believe are priced in to share), the North American order book for 2019 is basically full (in relation to production capacity). Because of this we expect a good sales development in 2019 as well as for EBIT given our view of easing supply chain constraints. Given the current operational improvements, we expect a wave of positive cash-flow to continue to build the net cash position going forward – making us confident of continued high dividend payments (currently around 7% including extra-dividend). The Volvo share currently trades at a c.30% discount to the historical NTM EV/EBIT multiple, which is too much, in our view. Buy, TP SEK 185.

DOM – BUY, TP SEK 93

Dometic's first CMD as a listed company was held on May 28 which left us reassured in our view of expanding margins and solid growth over the coming years. Initiatives which we expect will drive margins going forward include cutting the long tail of stock keeping units (SKUs), harmonising manufacturing processes and outsourcing non-core production as well as consolidate factories across the group. In the shorter term, we see a less negative impact from the ongoing inventory correction in the important North American RV industry as we progress into the second half of the year as retail sales has held up significantly better than shipments, resulting in decreasing overstocking. The valuation of the share remains low at a 2019E EV/EBIT of 12x and 2020E EV/EBIT of 10x and we expect the share to continue to gradually regain the favour of investors.

STORY – BUY, TP SEK 175

Storytel is in a phase of strong operational progress. The offering grows in popularity in its domestic Nordic footprint. Internationally Storytel is launching the services in several new markets and is currently active in 16 markets with launches in 4-5 new markets expected in 2019. The subscriber base is likely to be at 835k by the end of the first quarter, for an increase of around 260k over the past twelve months. Sweden and Denmark combine for total revenues of SEK 1.24bn with an EBITDA margin of 8%, generating a positive operational cash flow of around SEK 100m in 2018. The cash flow profile should have a positive impact on the risk profile of the company. The current valuation does not reflect the combination of growth in subscribers and revenues combined with a reliable cash flow generation in the core business. We believe there is substantial upside potential in the share.

AZELIO – BUY TP SEK 30

Azelio is a Swedish Cleantech company offering a system that provides solar power on demand in a reliable and dispatchable manner – ultimately efficient overnight energy storage – thereby solving one of the major challenges with traditional solar power (intermittency). The system offers competitive economics relative to diesel-based gensets and solar photovoltaic (PV) panels + batteries in its target markets and has received strong customer interest ahead of the expected scale roll-out in 2020-21E. Operationally, the main event in 2019 will be the start-up of the verification project for the full system in Morocco scheduled for Q4. Another trigger over the next 6-12 months will likely be securing the additional funding required to reach positive cashflow, which we already account for in our target price and expect will be a straightforward process provided the company continues to deliver on its communicated plans. The share remains below the SEK 22 IPO price, and given the potentially transformational product we see this as a high-risk case but with significant share price upside from current levels. Also, Azelio recently announced the company will start to market its thermal energy storage solution and Sterling engine as a standalone product (without the heliostats and tower of the full thermal solar power system) and thereby expand the addressable market to any electricity grid in need of storage.

LUPE – BUY, TP SEK 340

Lundin Petroleum reported solid Q1'19 numbers in early May. Good progress was reported at Sverdrup, adding further fuel to speculation around early start-up relative to the official November guidance, and the potential for upside to the medium-to-long term production guidance. With over USD 6bn of expected free cash flow in 2020-24E (near 50% of EV), driven by low-cost production from its own discoveries Grieg and Sverdrup, LUPE is in many ways moving on from hunting for "elephant" fields to turning them into cash flow and dividends. USD 500m is proposed to be paid out in 2019 (5.4% yield), and we see the potential for the dividend level to double to USD 1bn or >9% yield by 2021-22E, which means LUPE will rapidly move up the rankings as a dividend payer. The share has been weak in recent weeks with oil prices declining (temporarily in our view), and we view dips like this as attractive entry points ahead of Sverdrup first oil later in 2019.

BIOINVENT – BUY TP SEK 3.94

BioInvent recently raised new equity to fund its development plan. The transaction had a larger dilutive effect on the value per share than the market expected, and the share has been under pressure since. However, we have a hard time turning a blind eye to the current valuation, which we believe is far from reflecting the underlying value of the company´s research projects and platform. We recently resumed coverage of BioInvent with a Buy recommendation and target price of SEK 3.94, which reflects the updated number of shares outstanding.