

September portfolio

After a strong month in July the Swedish equity market lost some speed and traded largely sideways in August with our benchmark (OMXSIG) gaining a modest 0.5%. S&P 500 wrapped up its seventh straight month of gains driven by post-pandemic reopening and further economic recovery. Our portfolio lagged our benchmark and declined 2.6% in August, resulting in an underperformance of 3.1 percentage points. Only 3 out of 10 stocks in our portfolio closed higher for the month with our tech holdings Embracer (-12%) and Storytel (-12%) continuing to drag on performance. On a more positive note, both Sedana Medical (+11%) and Renewcell (+10%) continued to trade higher. We make two changes for September: we add Vicore Pharma and Green Landscaping and remove Millicom and Xbrane.

August portfolio in review

August was a modest month for our OMXSIG benchmark which gained 0.5%, while our portfolio underperformed by declining 2.6%. 7 out of 10 stocks in our portfolio underperformed with the worst performance from our tech holdings Embracer (-12%) and Storytel (-10%). Stronger performance was delivered by Sedana Medical (+11%) and Renewcell (+10%), while ABB gained a more modest 1.8%.

We make two changes for September

For September, we make two changes in our portfolio as we add Green Landscaping and Vicore Pharma, and we remove Xbrane and Millicom. **GREEN** reported a Q2'21 EBITA margin below our expectations, and the stock has traded 11% lower since the report. Still, the investment case and roll-up story remain intact, with continued strong earnings growth in coming quarters mainly driven by M&A. At 19.7x/17.0x 2022/23E EV/EBITA and a 30-35% discount to Compounders on 2022-23E EV/EBIT, we see substantial share price upside fuelled by an aggressive acquisition agenda. **VICORE** is a Swedish biotech company developing first-in-class drugs against fibrotic lung diseases such as idiopathic pulmonary fibrosis (IPF). The company started dosing IPF patients with its lead drug VP01 in an open-label trial late last year and we expect a potential interim readout by end of 2021 and topline data later in 2022.

Sector

Investment Strategy

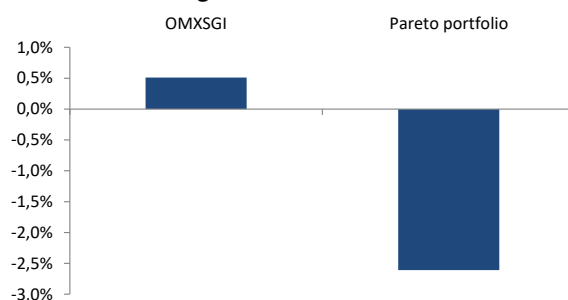
Portfolio

	Rec weight
Jetpak	10,0 %
Renewcell	10,0 %
Vicore	10,0 %
Storytel	10,0 %
ABB	10,0 %
Volvo	10,0 %
Green Landscaping	10,0 %
Sedana	10,0 %
Embracer	10,0 %
Lundin Mining	10,0 %
Sum	100%

Performance

	augusti	YTD	Since start ⁽¹⁾
PAS Portfolio	-2,6%	17,0%	237,7%
OMXSIG	0,5%	32,6%	170,0%
Relative performance	-3,1%	-15,6%	67,8%
⁽¹⁾ February 2017			

Performance in August



Total performance (since February 2017)

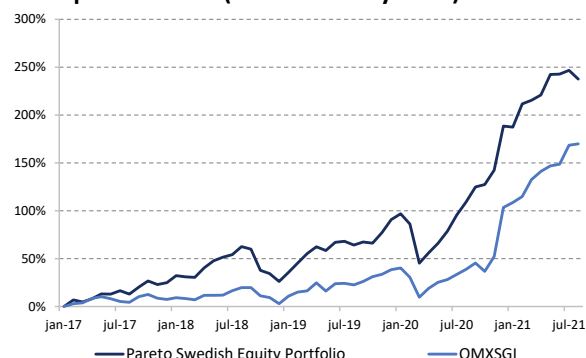


ABB – BUY, TP SEK 375

ABB reported a better order intake than expected in Q2, in line with what other capex-related industrials have reported. However, the most important achievement is that despite supply chain disruptions ABB reached its EBITA margin target of 15% in Q2. We are especially pleased with the outcome in Electrification but also positive is that higher service sales are finally pushing up margins in Process Automation. Thanks to the strong order intake, although factoring in delays in the supply chain, we raised our EPS estimates for 2022/23 by 4% and our target price to SEK 375 (350) after the Q2 report.

EMBRAC – BUY, TP SEK 325

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 August (Q1) 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 letters of intent signed. We believe that the likelihood for further M&A is high in the short term. We argue that the fundamentals continues to strengthen, whereas the valuation has come down to unwarranted historical low levels. As the Q1 results were strong with further room for accretive acquisitions we expect investors to buy this compounder in H2'2021.

GREEN – BUY, TP SEK 110

The Q2'21 EBITA margin came in below our expectations, and GREEN has traded 11% lower since the report. Still, the investment case and roll-up story remains intact, with continued strong earnings growth in coming quarters mainly driven by M&A. At 19.7x/17.0x 2022/23E EV/EBITA and a 30-35% discount to Compounders on 2022-23E EV/EBIT, we see substantial share price upside fuelled by an aggressive acquisition agenda.

JETPAK – BUY, TP SEK 125

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 Q3-Q4 2021E to lift the mix and margins. Also, we expect more acquisitions in 2021 and that the international expansion will drive growth from 2022.

LUMI – BUY, TP SEK 100

After a multi-year investment period across its mine portfolio, LUMI is generating strong cashflows at current metal prices, and another dividend increase was announced alongside in-line financials for Q2 in late July. We see several reasons to assume metal prices are sustained at or above current levels over the next several years and recently made positive revisions to our metals price assumptions. However, the LUMI share has traded sideways over the past month as the company was forced to cut its 2021 copper production guidance to manage fault zones within the open pit at Candelaria, which has also had a 10-15% knock-on effect on 2022-2023 production from the asset. And in the background, there is the looming tax changes in Chile which could impact Candelaria from 2024. Nevertheless, we view the risk/reward as attractive after the recent share price weakness.

RENEW – BUY, TP SEK 315

Renewcell is a Swedish cleantech company offering the first-ever solution for 100% textile-to-textile recycling on an industrial scale. The RENEW share rallied almost 300% during the initial months after the IPO in Q4 2020, but since then the share has come down to more attractive levels, accentuated since late May by selling pressure related to the expiry of the post-IPO lock-up period for certain shareholders. However, the share has recovered since then and we expect more to come. The long-term investment case is attractive, underpinned by the scarcity of truly circular textile material for both fibre producers and consumer brands, as well as the scarcity of truly circular listed companies for investors. In addition, we see two potential sources for further upside relative to our target price: accelerated growth plans and improved price spread between Circulose® and textile waste.

STORY – BUY, TP SEK 320

Storytel released its Q2 results in early August. The event included revised FY'21 guidance on streaming revenues and subscribers, which negatively impacted the share. However, we believe the subscriber growth will accelerate throughout the remainder of the year and see good potential for solid subscriber growth in 2022 and onwards. Storytel is currently present in 25 markets; this number will increase to +40 by the end of 2023. The audiobook market is growing rapidly across the world. Storytel has developed a significant international footprint and created an extensive content catalogue in local languages addressing. The strategic partnership with Spotify can improve Storytel's commercial strength in several existing markets and add a few new markets in which the audiobook has reached a more mature status.

SEDANA – BUY, TP SEK 133

Sedana continues to deliver according to or ahead of plan, but the SM shares have just recently managed to crawl above the broader OMX. The surprise approval in 15 European countries, in line with our blue sky scenario, is unprecedented. The rest of 2021 includes a long list of important triggers, e.g. filing of IND in the US and Chinese approval, which we believe will support the share price. In addition, in the recent Q2 report, the company delivered a 3% organic sales growth despite tough comps from Q2 2020, emphasizing the underlying demand for inhaled sedation as the number of Covid-19 patients in the ICU continues to decrease significantly. Our belief that Sedana has a good chance of changing the treatment paradigm for sedation in the ICU remains intact.

VICORE – BUY, TP SEK 97

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). Vicore started dosing IPF patients with its lead drug VP01 in an open-label trial with a potential interim readout late last year and we expect a potential interim readout by end of 2021 and topline data later in 2022. Furthermore, VICO's lead drug is acting as anti-inflammatory agent directly within the system that is impaired by SARS-CoV-2, which plays a key role in the lung inflammation observed in Covid-19 patients. Vicore treated 106 patients in a phase II clinical trial and reported exceptionally good phase 2 data in December 2021 and we expect the phase 3 trial to start this month, which comes at the right time considering the unfortunate increase in COVID-19 related hospitalizations in several countries.

VOLVO – BUY, TP SEK 285

Volvo delivered second quarter results in line with general market expectations, while at the same time demonstrating great underlying performance. Excluding the production stop of four weeks, Volvo Trucks managed an underlying result in the second quarter that was near the SEK 8bn level of the first quarter, instead of the reported SEK 5.3bn. Despite some potential further supply disruptions during the second half, we now expect the company to be able to step-up production levels compared to the second quarter. The insight of sequential earnings improvement will boost sentiment towards the Volvo share and act as share price catalyst, in our view.