July portfolio

Sector: Investment Strategy

After strong gains in April and May, June was a more mixed month for Swedish and global equities – our OMXSGI benchmark ended the month up 2.3% – as investors are bracing for a lockdown-impacted Q2 earnings season and assessments of potential regional second waves of the covid-19 pandemic. Our portfolio clearly outperformed the benchmark during the month, gaining 7.7%, driven both by a few stand-out performers as well as most of the stocks beating the benchmark (8 out of 10 to be precise). Azelio (+30%), IPC (+14%) and Embracer (+14%) where the top performers, while Boule Diagnostics (-6%) underperformed. For July, we make two changes to our portfolio: we add Fabege and Qleanair, and we remove Boule Diagnostics and Nobia.

June portfolio in review

The strong recovery for equity markets lost some steam in June with Q2 earnings season around the corner and signs of a resurgence for covid-19 in some countries opening up after lock-down during the spring, most notably the United States. Overall, the OMXSGI benchmark gained 2.3% in June, while our portfolio outperformed and gained 7.7%. 8 of the 10 stocks in our portfolio beat the benchmark in June, with notable outperformance by Azelio (+30%), IPC (+14%) and Embracer (+14%).

We make two changes for July

For July, we make two changes to our portfolio. We add Fabege and Qleanair, and we remove Boule Diagnostics and Nobia.

Projects have become **Fabege's** bread-and-butter business on the back of a healthy occupier market in Stockholm. However, enthusiasm for further office space may be postponed during the crisis, leading to fewer development project starts. Also, we see a risk for negative office rental growth in Stockholm during 2020. With this in mind, we still think the market is too pessimistic at the current EPRA NAV discount of 28%. The exposure to retail is limited and Fabege's commercial and residential building rights, comprising c. 600,000 sqm, holds, in our view, a low valuation (SEK 5,300 per sqm) compared with the vast long-term potential and should act as a cushion. The share has returned like retail-focused Hufvudstaden and Atrium Ljungberg since late February (~-40%), and we view Fabege as the best option in this trio.

Qleanair is a provider of indoor premium air cleaning solutions, offering technology to protect people, products and processes from air pollution. Qleanair started as a provider of smoking cabins but developed its core technical platform into two new primarily non-smoking-related divisions in 2015, Facility Solutions and Room Solutions, providing clean air to logistics/industries and hospitals/pharma, representing an estimated 26% of sales in 2021. Organic growth has been 15% over the last 20 years and we expect 10% growth through 2021, supported by strong environmental trends for clean air. A unique rental model and outsourced production support a capital-light business model with high EBIT margins of close to 20%. We see a reasonable valuation of EV/EBIT 10.5 for 2021 equivalent to target price of SEK 60, relative to the current share price of 32.6.

Portfolio

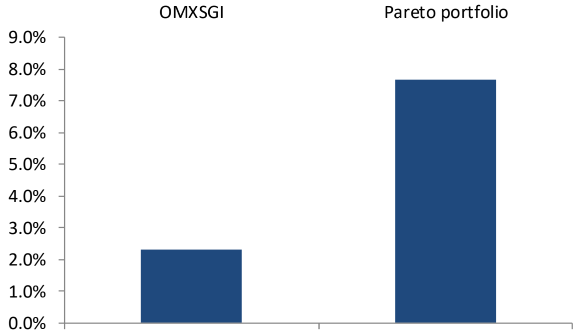
	Rec weight
Sedana Medical	10.0 %
Telia	10.0 %
Dometic	10.0 %
Azelio	10.0 %
Qleanair	10.0 %
Millicom/Tigo	10.0 %
Embracer	10.0 %
Fabege	10.0 %
IPC	10.0 %
Kinnevik	10.0 %
Sum	**100%**

Performance

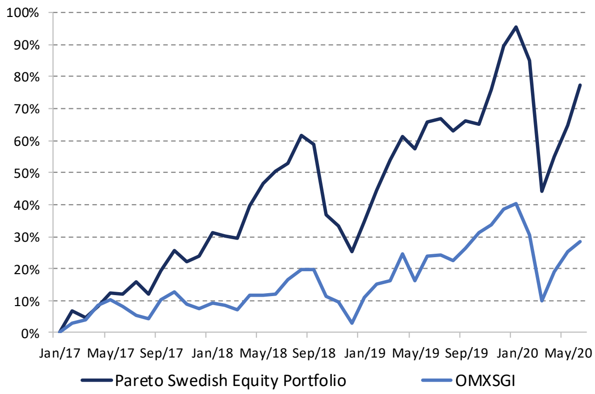
	Performance		
	June	YTD	Since start[1]
PAS Portfolio	7.7%	-6.3%	77.4%
OMXSGI	2.3%	-7.4%	28.3%
Relative performance	5.3%	1.1%	49.1%

[1] February 2017

Performance in June



Total performance (since February 2017)



FABG – BUY, TP SEK 139

Projects have become Fabege's bread-and-butter business on the back of a healthy occupier market in Stockholm. However, enthusiasm for further office space may be postponed during the crisis, leading to fewer development project starts. Also, we see a risk for negative office rental growth in Stockholm during 2020. With this in mind, we still think the market is too pessimistic at the current EPRA NAV discount of 28%. The exposure to retail is limited and Fabege's commercial and residential building rights, comprising c. 600,000 sqm, holds, in our view, a low valuation (SEK 5,300 per sqm) compared with the vast long-term potential and should act as a cushion. The share has returned like retail-focused Hufvudstaden and Atrium Ljungberg since late February (~-40%), and we view Fabege as the best option of this trio.

QLEANAIR – BUY, TP SEK 60

QleanAir is a provider of indoor premium air cleaning solutions, offering technology to protect people, products and processes from air pollution. QleanAir started as a provider of smoking cabins but developed its core technical platform into two new primarily non-smoking-related divisions in 2015, Facility Solutions and Room Solutions, providing clean air to logistics/industries and hospitals/pharma, representing 22% of sales in 2018 and growing to an estimated 26% of sales in 2021. Organic growth has been 15% over the last 20 years and we expect 10% growth through to 2021, supported by strong environmental trends for clean air. A unique rental model and outsourced production support a capital-light business model with high EBIT margins of close to 20%. We see a reasonable valuation of EV/EBIT 10.5 for 2021 equivalent to target price of SEK 60, relative to the current share price of 32.6.

TIGO – BUY, TP SEK 460 (USD 50)

Millicom is present in nine Latin American markets, offering mobile and fixed broadband services. These markets experience strong population growth and a rising average household income level. The region experiences quite modest 4G mobile and fixed broadband penetration rates. We expect a growing middle class will demand more broadband services. Millicom is well-positioned to benefit from these market trends. The markets are currently in hard lockdown in response to COVID-19 which has an adverse impact on service revenues. We believe Millicom is well positioned to handle the current turmoil and has potential to emerge even in a stronger position once the economic activity recovers. The share is trading at multi-year lows and has underperformed both its Latam and international peers. We believe there is significant potential in the Millicom share over the next twelve months.

EMBRAC – BUY, TP SEK 149

As stated before, with two AAA projects postponed to 2021, 2020/21 will be a year supported by a frequent flow of mid-sized releases from the 118 project strong pipeline, and the year has started well with seven well received new releases and notable digital promotions of back catalogue yielding robust results; thus, Q1 2020/21E is set to be a strong quarter. In addition, we believe Embracer will be able to close new landmark deals soon as it has a strong offering (diversified group) as previous sellers partly paid in shares have been highly rewarded with the EMBRAC share 64% (Saber) to 316% (Koch Media) higher now versus when the deals were signed. We estimate Embracer could raise SEK 3.5-4.0bn in debt to be used for M&A given its new financial policy of net debt/operational EBIT NTM of 1x, and a 10% equity issue mandate would add an extra SEK 4bn; thus sizeable deals are possible, and if struck at historical levels (EV/EBIT), M&A could add up to SEK 20/share to the fair value that partly is reflected in our target price.

SEDANA – BUY, TP SEK 285

Sedana's product AnaConDa is well placed to treat patients suffering from COVID-19 in the ICU setting. Several studies have demonstrated that volatile anaesthetics like isoflurane modulate pulmonary inflammation in acute respiratory distress syndrome (ARDS), which is associated with the new virus. Thus, the demand for AnaConDa is strong, as seen in Q1'20. Since we believe the demand for Sedana's product AnaConDa will be even more robust in Q2, we recently made significant upward revisions to our estimates for 2020. While the direct impact of COVID-19 is likely to taper off, the crisis will have advanced Sedana's position in the market in a substantial way also for the longer term, in our view. In July, there is the potential to get study results from Sedana, although these may also come later in Q3.

AZELIO – BUY, TP SEK 30
Azelio's commercial verification installation is up and running in Morocco and Sweden and we expect initial operational data within the coming months (although this will depend on virus restrictions around international travel being alleviated during the summer). Further, with several new MoU's announced in recent months it is full steam ahead on several fronts preparing for the commercial ramp-up from Q3 2021e. Based on the massive potential for an efficient energy storage solution such as Azelio's, we estimate a fair value range of SEK 2.5-3.5bn for the company, while the equity market values the company at around SEK 1.4bn, which gives us high confidence in our Buy recommendation also after recent share price gains. Azelio has updated the market on its response to COVID-19, saying that the plans and expenses for 2020 will be delayed by one quarter, meaning deadline for the next capital raise has moved from September to December 2020.

DOM – BUY, TP SEK 93
DOM performed well in April-May, but flat-lined in June. We think there is more upside to be had in the share as OEM customers in the RV and Marine markets are resuming production while lockdowns are being eased which should benefit the aftermarket channel, and we argue that there should be substantial improvements during H2. Assuming a strong recovery of economic activity in 2021, we believe that Dometic could benefit from reduced air travel and a desire among consumers to spend their vacations closer to home and in the outdoors. There have been positive data points from the RV market recently, and we expect more to come. Moreover, the ongoing restructuring of the company's factory footprint should contribute to improved margins over the coming years.

KINV – BUY, TP SEK 290
Kinnevik has a strong portfolio of assets, in our view. The listed assets offer a mix of rapidly growing online-based business models combined with stable, defensive cash flow-generating companies. Zalando targets the European fashion and beauty retail market. Livongo targets the US healthcare market. Tele2 is an established telecom services business in the Nordic and Baltic region. The unlisted portfolio has several interesting holdings such as Babylon (online healthcare solutions), MatHem and Kolonial (online groceries) and Betterment (online financial advisory and asset management). The discount to NAV remains relatively high at close to 20%.

TELIA – BUY, TP SEK 42
The new CEO, Allison Kirkby, entered Telia in May. In our view the share is trading with a discount related to the strategic outlook and potential for the company. The company has a strong position in several key segments across its domestic markets in the Nordic region. Service revenues have been improving for the past couple of quarters and the balance sheet is strong. On the cost side we believe there is significant potential left for additional efficiency improvements. The new CEO has a strong track record as CEO of Tele2 in bringing about solid cash flow growth through efficiency improvements. In our view she has a challenging but also promising task in improving the performance of Telia. If she is successful, we believe the performance of Telia can be rewarding. It starts with a new message to both the company and to its investors over the next few months, and we not changes to the senior management team have already been announced.

IPC – BUY, TP 32
As the COVID-19 pandemic hit markets in late Q1'20, IPC took significant measures to scale back on its production and development plans for 2020 to shore up liquidity. Oil prices have now recovered strongly since their April lows and the improved supply/demand balance has led us to lift our 2020 Brent oil price assumption to USD 42/bbl (32). For IPC, the improved market backdrop means increased liquidity headroom under its credit facilities and that the more disruptive scenarios for production, opex and capex in 2020 are increasingly unlikely. From a liquidity perspective, we now estimate YE'20 net debt of USD 306m, down from USD 341m, and see the liquidity headroom under IPC's credit facilities troughing at USD 72m and end-Q2'20 (~16% headroom). Our YE'20e risked NAV has increased to SEK 40/share (36). The IPC share has started to recover, but the NAV sensitivity to the oil price suggest further upside.