Pareto
Securities AB Equity Research

Equity Portfolio Sweden

2 Oct 2017

October Portfolio

Sector **Investment Strategy**

Our model portfolio was up 6.5% in September, while the OMXSGI benchmark index was up 5.6% during the same period. Year to date, our portfolio is up 19.4% while OMXSGI benchmark index is up 10.3%. For October, we keep 8 of 10 stocks, and replace RaySearch and Alfa Laval with Elekta and Fabege.

September portfolio

Our monthly portfolio was up 6.5% in September, while our benchmark index was up 5.6%, a relative outperformance of 0.9%. 5 out of 10 shares beat the benchmark index: Alfa Laval, International Petroleum Corporation, Victoria Park, Kindred Group and Raysearch. Year to date, our portfolio is up 19.4%, while the OMXSGI benchmark is up 10.3%, a relative outperformance of 9.1%.

2 new stocks in our October portfolio

In our October portfolio we keep SOBI, International Petroleum Corporation, Victoria Park, Mr Green, Catena Media, Kindred Group, SCA and Billerud. We replace RaySearch with Elekta as the US introduction of RayCare at ASTRO 2017 did not meet our expectation of a positive share price reaction. Instead, we see the new Elekta/IBA partnership to be news on the negative side for RaySearch. We take profit in Alfa Laval after a strong run in September (although we remain Buy rated with a 12-month target of SEK 220). We are bullish Fabege and expect the large building right portfolio coupled with a solid stream of large, new leases to provide fuel for more projects and value creation going forward. We expect a strong end to 2017 for Fabege supported by solid Q3 and Q4 reports (the Q3 report is due on 19 October).

Portfolio

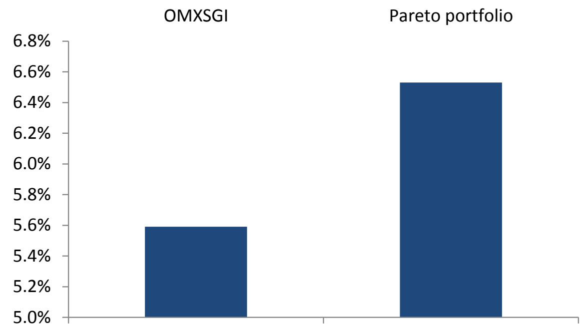
	Rec weight
FABG	10 %
SOBI	10 %
SCA	10 %
BILL	10 %
IPCO	10 %
VICP	10 %
MRG	10 %
CTM	10 %
KIND	10 %
EKTA	10 %
Sum	**100 %**

Performance

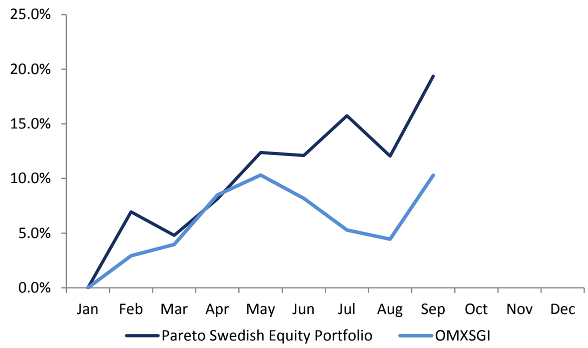
	Index Value 30/09/2017	Performance last period	Performance 2017 [2]
Total Portfolio [1]	119.4	6.5 %	19.4%
OMXSGI [1]	110.3	5.6 %	10.3%

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

Performance in September



Performance 2017 (YTD)



FABG – BUY, TP SEK 205

Fabege is one of our top picks in the real estate universe and we see significant short- and long-term potential in the share. The company has a history of impressive property value and NAV growth and we expect the positive development to continue in H2 2017 as well as in 2018 and 2019. The property value lift comes primarily from hefty rental growth (renegotiated rental contracts were up 27% in H1 2017, 23% for the full year 2016) and from highly profitable commercial (office) property developments (54% ROI in H1 2017 and 60% in 2016, target is 20%). The latter triggers not only value growth but also increases the rental income and cash flows from the completed projects. The large building right portfolio coupled with a solid stream of large, new leases gives fuel for more projects to develop. We expect a strong ending to 2017 supported with solid Q3 and Q4 reports (the Q3 report is due on 19 October).

SOBI – BUY, TP SEK 200

We are looking forward to hear more about the strategic review that the new CEO, Guido Oelkers has been working on, and expect top-line comments about this review when Sobi presents its Q3 results on October 25. Mr Oelkers is adamant to take Sobi to the next level, something that could include M&A activity. We also expect continued excellent progress in the ongoing launch of Elocta and Alprolix, with a good possibility to once again beat market expectations. As the business evolve, Sobi is rapidly moving from a justified premium valuation vs. peers to a situation where it is trading at a discount, despite expected higher growth and both revenues and profit.

SCA – BUY, TP SEK 80

SCA's large forest holdings should be an attractive investment for pension funds etc, with their stable growth and the current low interest rates. We believe SCA's book value for the forest assets of SEK ~31bn is conservative and we estimate in our base case that a sale could be done at a SEK ~20/share premium to the book value, with a further SEK ~20-50/share upside potential in more bullish scenarios. SCA will report their Q3 numbers on October 31st where we expect them to announce financial targets which have not yet been set for the standalone company. We have a Buy recommendation and target price of SEK 80.

BILL – BUY, TP SEK 145

Billerud has recovered slightly from the very weak performance after the Q2 report but we believe that production stability in Q3 will be a trigger in itself. We have been cautious on Billerud for quite some time, arguing a lack of short-term triggers except for M&A, but believe that the share has come down too much, and we now see a good opportunity to buy a quality company at a discount following internal production problems. Billerud has 100% exposure to packaging and deserves a premium valuation if it can control its internal problems going forward. Billerud will report their Q3 numbers on October 17th. We have a Buy recommendation and target price of SEK 145.

IPCO – BUY, TP SEK 43

International Petroleum Corporation is a recently launched Lundin Group E&P company which aims 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 . Last week IPCO announced the acquisition of the Suffield/Alderson natural gas and heavy oil assets in Canada in a fully debt-financed deal. Suffield/Alderson will become the new cornerstone of IPCO's portfolio, and we view the transaction as NAV accretive by SEK 8/share for IPCO, which is not yet fully appreciated by the market. We recently raised out TP for IPCO to SEK 43 (40).

VICP – BUY, TP SEK 37

The share was up 9% in September and is up approximately 31% from April 2017. We argue the share still offers material upside with both near- and long-term potential, where new property acquisitions are imminent triggers. We focus primarily on the extraordinary NAV growth (16% q/q in Q2, 60% y/y) coupled with a moderate risk profile. The clear focus on residential properties, in cities with population growth, implies low risk for vacancies and regulated rental levels effectively lowers the operational risk. Significantly higher rents upon completed renovations drives 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 and the recent Q2 report was yet another proof of the business model, in our view. We have a Buy recommendation and a target price of SEK 37.

MRG – BUY, TP SEK 61
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 last year and got back on the growth track, which we believe the Q3 report will continue to show. The company recently made a share issue of SEK 195m before fees which we believe will result in M&A in the upcoming months.

CTM – BUY, TP SEK 118
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. The ongoing revenue-model shift has punished growth short term but will bear fruit in 2018 why we see a good entry point after weak share performance after the recent placing.

KIND – BUY, TP SEK 110
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 holds the highest share of regulated revenue. Kindred's Q2 2017 report was solid in terms of growth as sales were up 32%, of which 18% was organic, beating both our and consensus expectations by ~3%. Sportsbook revenue was strong growing 30% y/y and the Western Europe region is growing very fast due to the acquisition of 32Red and continued strong growth in France. Early Q3 2017 guidance supports continued growth in Q3 even though comps are tough. In addition Kindred will see and an positive effect from strengthening currency tailwinds since the GBP has depreciated versus most currencies during the third quarter. The shares recovered somewhat since beginning of September but we still think it offers an attractive entry point ahead FIFA 2018.

EKTA – BUY, TP SEK 97
We add Elekta to our monthly portfolio as the US pre-launching of Elekta Unity (MR-linac system) at ASTRO 2017 was well attended and received positively. The CE mark of Elekta Unity should be in place in November which could be a catalyst for significant number of orders from European clients. A 510(k) clearance should also be in place in the beginning of 2018, which would unlock the US market for this product next year. The share reacted negatively following the ASTRO 2017 in spite of rather positive news and we see a good entry point ahead of the Q3 report which has a set of easy comparable numbers.