May portfolio

Sector **Investment Strategy**

The Swedish equity market started April on an upward trend, but Q1 earnings have on aggregate been mixed relative to the high expectations priced in year-to-date, and the second half of the month was more volatile. Overall, the OMXSGI benchmark gained 3.6% in April, while our portfolio underperformed somewhat and gained a more modest 1.5% during the month. In our portfolio, only Swedencare (+30.8%) and Embracer (+8.5%) beat the benchmark. We make two changes for May: we add Telia and International Petroleum Corporation (IPC), and we remove Swedencare and Etrion.

April portfolio in review

The Swedish equity market continued higher in April, but mainly during the first half of the month, as the second half saw earnings coming in mixed relative to the high expectations factored into share prices YTD. Overall, the OMXSGI benchmark gained 3.6% in April, while our portfolio gained slightly less, only 1.5%. Only two stocks in our portfolio outperformed the benchmark; Swedencare (+30.8%) and Embracer (+8.5%), while SKF (-11.9%) and Storytel (-8.3%) stood out as underperformers.

We make two changes for May

We largely stick to our selection for May and make only two changes to our portfolio. We add Telia and International Petroleum Corporation (IPC), and we remove Swedencare (due to strong performance) and Etrion (due to triggers having played out).

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. While 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.

IPC remain a top pick in the oil and gas sector, and the company's operational and financial plan for 2021 is focused on delivering strong free cash flow generation. The 2021 production guidance is 41,000-43,000 boe/day and with the capex budget scaled back to USD 37m for the year, we expect strong cashflow already in Q1 2021. IPC is a well-run company and the share is highly geared to the oil price compared to peers, and we view the risk/reward as attractive (also after considering the strong performance YTD).

Portfolio

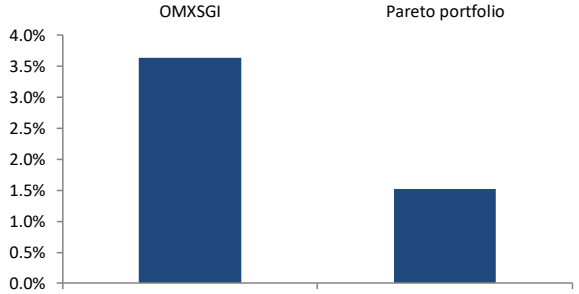
	Rec weight
ABB	10.0 %
SKF	10.0 %
Kindred	10.0 %
BioInvent	10.0 %
Jetpak	10.0 %
IPC	10.0 %
Embracer	10.0 %
Millicom/Tigo	10.0 %
Storytel	10.0 %
Telia	10.0 %
Sum	**100%**

Performance

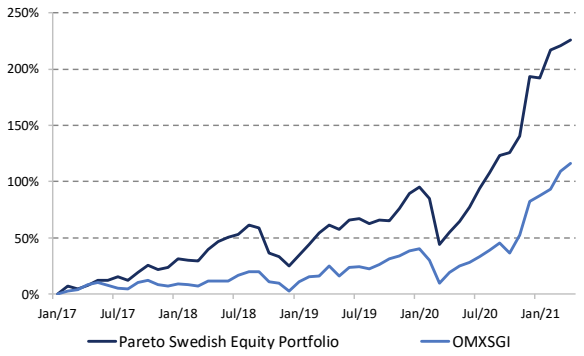
	Performance		
	April	YTD	Since start[1]
PAS Portfolio	1.5%	11.0%	225.6%
OMXSGI	3.6%	18.5%	116.5%
Relative performance	-2.1%	-7.5%	109.1%

[1] February 2017

Performance in April



Total performance (since February 2017)



TIGO – BUY, TP USD 58 (SEK ~490)
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 operating cash flow of USD 119m for 2020 despite the oil market turbulence during the year, and on top of that the company managed to deliver positive free cash flow to USD 9m for the year after cutting capex and other costs in a meaningful way. In the Q4 2020 report, IPC set a prudent plan for 2021, with continued focused on free cash flow generation. The 2021 production guidance is 41,000-43,000 boe/day and with the capex budget scaled back (to USD 37m for the year), we expect strong cashflow already in Q1 2021. 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 view the risk/reward as attractive also after the strong performance YTD.

EMBRAC – BUY, TP SEK 290
The Q3 2020/21 results beat consensus operational EBIT estimates by 17%, supported by strong back catalogue games sales and high digital share of sales. The coming financial year is expected to be the strongest year ever in terms of release activity with more than 70 premium game development projects. Embracer reiterated that M&A activity remains high across the group for bolt-on acquisitions, where we estimate Embracer to have M&A firepower of SEK 11-13bn. We argue that the likelihood for further M&A is high in the in the short term. As the Q3 2020/2021 results were strong and acquisitions accretive 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. We expect a gradual improvement of margins from 13.6% in 2021, 14.8% in 2022, and 15.5% in 2023. We expect that each quarter that ABBs is showing an improved margin trend will impact the valuation positively. 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 75 (target under review)
BioInvent is a immuno-oncology company with currently 4 first- or best in class drugs in clinics and a catalyst-rich year ahead. The company just released data from its Ph1/2a dose escalation trial of BI-1206 + Roche's Rituximab which attracted Redmile Group, a top 10 US healthcare specialist fund to invest in the recent share issue and become the largest shareholder of BioInvent. BioInvent's valuation is likely related to the general market inefficiency observable in Swedish early-stage biotech. We believe this presents an excellent opportunity to start a position as the company has now transformed itself from a more research-data releasing company to a fully clinical-stage biotech with clinical proof of concept (PoC) of its lead drug, a likely increasing attention from international investors and a potential multifold upside.

KINDRED – BUY, TP SEK 221
Kindred's Q2 has started strongly with a daily average revenue in line with Q1'21, or 52% above the average of Q2'20. The momentum has continued both for the casino and sporting vertical, with a further boost expected from the EURO 2020 towards end of Q2'21. We see room for further positive estimate revisions and multiple adjustment in the medium term and continue to see Kindred as one of our sector favorites.

SKF – BUY, TP SEK 300
We believe that SKF's focus on improving efficiency over the past five years is paying off. The 2020 charges are part of this process – SKF has taken advantage of the downturn related to COVID-19 to introduce cost-cutting measures quickly and streamlining initiatives to lift margins. Significant CAPEX increases in factory automation and a focus on higher efficiency with a considerable boost from measures taken in 2020 should lift EBIT-margins above their 12% margin target when volumes recover in 2021e and 2022e. In both absolute and relative terms, SKF is attractively valued. We see an EV/EBIT of 10x as reasonable for 2022. Our EBIT-estimates are 7% and 6% higher than the Consensus for 2021-2022.

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.