

December portfolio

Our portfolio gained 6.7% in November while our benchmark OMXSGI index posted a 2.0% gain for the month. 8 of 10 stocks in our portfolio beat the benchmark, with IPC, Mips and Azelio contributing the most, while the Swedish equity market in general experienced a month of relative consolidation after strong performance in September and October. For December, we make three changes to our portfolio: we add Embracer, Millicom/TIGO, and Electrolux, and we remove Wihlborgs, Securitas and Elekta.

November portfolio in review

The positive momentum from late summer continued into November for the Swedish equity market, albeit at a more subdued pace, and as we summarize the month OMXSGI was up 2.0%. Our portfolio had a strong month, posting a 6.7% overall gain with 8 of 10 stocks beating the benchmark. Notable outperformance was delivered by IPC (+27%), Mips (+22%) and Azelio (+15%). IPC posted strong Q3'19 numbers and launched a share buy-back, which has started to reduce the discount to NAV (we expect more to come). Mips bounced back in November as the share shook of concerns around temporary tariff headwinds and focus shifted to a production pick-up expected in Q4 and onward. IRRAS (-19%) and Elekta (-11%) underperformed on disappointing results for Q3.

We make three changes for December

For December, we add Embracer, Millicom/TIGO, and Electrolux. For Embracer, we find the accounting concerns raised by the research firm The Analyst in October as exaggerated (although the financial reporting needs to become more transparent) and we expect strong performance in Q3 and Q4 2019/20. We find Millicom/Tigo undervalued relative to Latam peers (and in absolute terms) and believe the Kinnevik exit process creates temporary weakness and a buying opportunity. The ELUX share has come down in the recent month and we estimate easing raw material headwinds and the split of the company (in H1'20) to be positive themes for the share over the coming months.

We remove Wihlborgs, Securitas and Elekta. After strong sector performance in Real Estate in recent months, including Wihlborgs, we choose to stay uninvested in the sector into year-end. We remove Elekta as we think the near-term uncertainty has increased after the recent profit warning and disappointing order ex-Unity order intake. We also remove Securitas as we see better near-term risk/reward elsewhere.

Sector

Investment Strategy

Portfolio

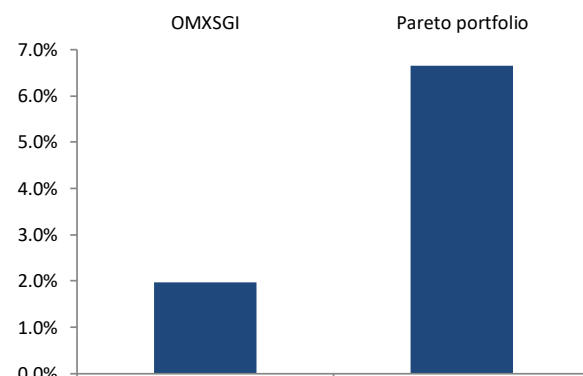
	Rec weight
IPC	10.0 %
Azelio	10.0 %
Electrolux	10.0 %
Mips	10.0 %
Storytel	10.0 %
Millicom/Tigo	10.0 %
Embracer	10.0 %
Boule Diagnostics	10.0 %
IRRAS	10.0 %
ABB	10.0 %
Sum	100%

Performance

	November	Performance YTD	Since start ⁽¹⁾
PAS Portfolio	6.7%	40.5%	76.0%
OMXSGI	2.0%	29.9%	33.8%
Relative performance	4.7%	10.6%	42.2%

⁽¹⁾ February 2017

Performance in October



Total performance (since February 2017)

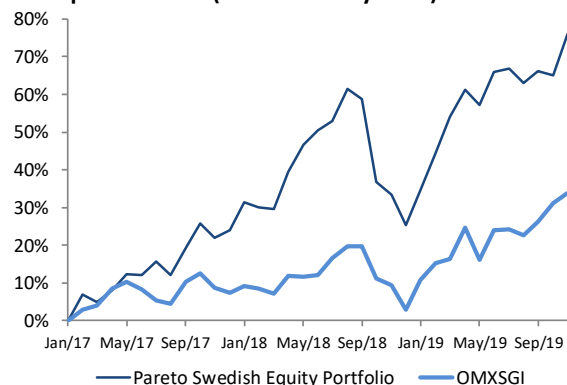


ABB – BUY, TP SEK 225

ABB is late cyclical, and during 2019 we have seen a continued increase of order intake for the company despite weaker growth from the automotive sector hitting the historic star performer Robotics & Discrete Automation. Order intake continues to be good for the less cyclical Electrification and base orders in Industrial Automation and in Motion are supported by a late cyclical recovery in demand from metals and mining, oil and gas and marine. Thanks to the late cyclical demand, we expect ABB to deliver a stronger than expected 2H 2019 and 2020. In addition, ABB is going through a major restructuring phase in 2019 and 2020 by selling Power Grids to Hitachi in mid-2020 and by aggressively taking down overhead costs by USD 500m from 2021, and not least by streamlining the acquisition of GEIS (General Electric) in the US. These measures are costly, but we are convinced that ABB will emerge as a more streamlined and cost-efficient company in 2020 and 2021. ABB will also distribute USD 7.6bn to shareholders, probably in the form of a share repurchase program in 2H 2020.

IRRAS – BUY, TP SEK 34

The share price has declined since the IPO back in 2017 due to some initial problems that have been either solved or are set to be solved in the near future. The most discerning issue has been the delayed CE mark for the catheter, but we believe there is a good chance of a clearance before year-end or at least in the near term, which is the most prominent catalyst for the share in the near term. IRRAS fluid management system to treat intracranial bleeding is the only active system on market and provides clear health economic advantages with the opportunity to become the next standard of care. The product is already FDA approved, and the company's financial target for 2021 of sales exceeding SEK 275m indicates substantial upside potential going forward.

BOUL – BUY, TP SEK 74

The weak YTD performance heading into the summer was primarily driven by two factors; the FDA warning letter in October 2018 and weak earnings performance. We believe the market reaction on the warning letter regarding the company's production facility has been exaggerated since the company has been able to continue their product production and sales activities despite the letter. However, the market sentiment turned in August and the share has recovered since. IN late October, Boule reported significantly improved margins for Q3'19, as we had expected. As the action plan to meet the FDA's quality requirements is set to be finalised in mid-January 2020, we believe the recovery of the stock is poised to continue.

TIGO – BUY, TP SEK 675

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. In addition the share has underperformed the broader sector following the announcement of Kinnevik to exit its ownership of 38% of the capital through a redemption share procedure. We find significant valuation support both relative to similar peers but also on a stand-alone basis. We see a significant upside potential over the next 6-12 months (+60%).

EMBRAC – BUY, TP SEK 92

The accounting concerns raised by the research firm The Analyst in October has muted the share price over the past month and created a good entry level. We are not worried about accounting or cash flow but admit the financial reporting needs to become more transparent as Embracer has become quite complex for investors to evaluate and find it positive that Embracer is listening to the market as an IFRS pre-study has been initiated. Operationally, the Q2 2019/20 results were strong, beating our and consensus estimates by 84% and 46% on operational EBIT, explained by a very strong quarter for both THQ Nordic and Deep Silver. We expect Q3 and Q4 2019/20 to be even better with Shenmue III released 19 November and Biomutant still modelled for Q4 2019/20, although this is still to be confirmed. We repeat that 2020/21 will be an especially strong year with at least two AAA projects released, which in addition to further M&A will help the company close in on the majors.

MIPS – BUY, TP SEK 200

Mips is a fast-growing company with a scalable business model and high profitability. Over the coming years, we see significant opportunities for the company to continue to drive market penetration in its core categories of Bike and Snow. Additionally, we believe that Mips will grow sales to the Moto category rapidly and see the net sales target of SEK 1bn by 2025 as reasonable. We expect Mips to continue to scale on costs and believe that the underlying business model could support an operating margin of some 48-50%. While tariffs caused major helmet brands to cut production in Q3, we believe that Mips' efforts to add new brands, reach higher model penetration with current customers and increasing end-consumer demand for MIPS-equipped helmets will drive solid growth going forward.

STORY – BUY, TP SEK 175

Storytel's offering grows in popularity in its domestic Nordic footprint and internationally Storytel is active in 16 markets with 4-5 new markets launched in 2019 alone. 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 annually. 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 – Not rated

Please note that Pareto Securities acts as advisor to Azelio in its announced SEK 350m equity rights issue.

IPC – BUY, TP SEK 55

We expect IPC to deliver production in line with guidance for 2019e and maintain production relatively flat in 2020-21e. We further expect oil prices to increase and capex to be reduced, resulting in strong pick-up in FCF to around USD 150m in 2020e – up from USD 60m in 2019e. At a flat oil price we see estimate an increase in FCF to over USD 100m in 2020e. The Canadian WCS oil price benchmark has been much more stable in 2019 after Q4'18 collapse prompted the Alberta Government to introduce production cuts. In addition, IPC has now diligently launched its share buyback programme, providing further support. The IPC share has recovered in recent weeks, but still trades at only 0.75x our risk-adjusted NAV and at 16% FCF yield (2020e) – attractive metrics for the Lundin Group's M&A-growth vehicle in the E&P sector.

ELUX – HOLD, TP 260

We believe that the split of the company in H1'20E will be a positive trigger for the share price, also now given cost efficiency improvements that will provide with increasing adjusted EBIT margins in the coming years (the total annual costs savings are expected to be SEK c.3.5bn; full effect from 2024). We expect the company to continue to see stable operations given price & mix improvements and we estimate easing raw material headwinds for 2020 with a tailwind of at least a couple of hundred million SEK. The share has come down over the recent month and while we have a Hold recommendation on a 12-month horizon we believe that a short-term share price appreciation to our target price of SEK 260 is justified (target price based on SOTP).