August Portfolio

Sector Investment Strategy

After a very strong first half of 2019, July was an almost flat month for the Swedish equity market, reflecting a mixed reporting season (so far) and a looming macro-economic slowdown. Our portfolio also posted near flat performance for the month, gaining 0.6% and just barely beating our benchmark which was up 0.2%. For August, we keep 9 of 10 stocks in our portfolio; the only change is that we include Green Landscaping at the expense of Dometic.

July portfolio in review

July was an almost flat month for the Swedish equity market after strong performance in June and in the first half of 2019 in general. Our benchmark OMXSGI gained 0.2% and our portfolio gained 0.6% in July, resulting in a slight outperformance for our portfolio during the month. Stendörren and Telia were the key contributors to the outperformance (+8.1% and +4.6% respectively), while Securitas and Dometic lagged the market after posting disappointing Q2 reports (-7.9% and -5.0% respectively). In total, 7 of 10 stocks in our portfolio outperformed our benchmark index.

1 new stock in our August portfolio

We make only one change in our August portfolio by replacing Dometic with Green Landscaping (we keep the other 9 stocks). We include Green Landscaping ahead of its Q2'19 report which is a seasonally strong quarter. Furthermore, we recently raised our EPS estimates for 2019E and 2020E by 5%, now also incorporating the recent acquisition of Mark & Trädgård Skottorp which we expect will boost margins. In Q2, we expect Green to have continued to grow sales substantially y/y due to the recent acquisitions, and we see significant synergies from, mainly, Svensk Markservice. Since going public in Q1 2018, Green Landscaping has performed well and is currently up almost 70% relative to the IPO price of SEK 21, but we see further upside as the track record of growth and margins is extended. Also, Green's share started trading on Nasdaq OMX Stockholm's main market in April 2019. Our 12-month target is SEK 46.

Portfolio

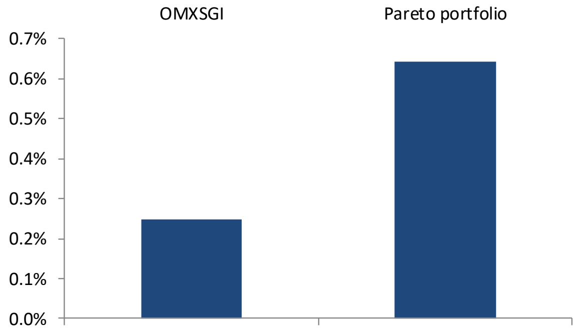
	Rec weight
Leo Vegas	10.0 %
Elekta	10.0 %
Azelio	10.0 %
Stora Enso	10.0 %
Green Landscaping	10.0 %
ABB	10.0 %
Stendörren	10.0 %
Storytel	10.0 %
Telia	10.0 %
Securitas	10.0 %
Sum	**100%**

Performance

	Performance June	YTD	Since start[1]
PAS Portfolio	0.6%	33.3%	66.9%
OMXSGI	0.2%	20.6%	24.2%
Relative performance	0.4%	12.6%	42.7%

[1] February 2017

Performance in July



Total performance (since February 2017)

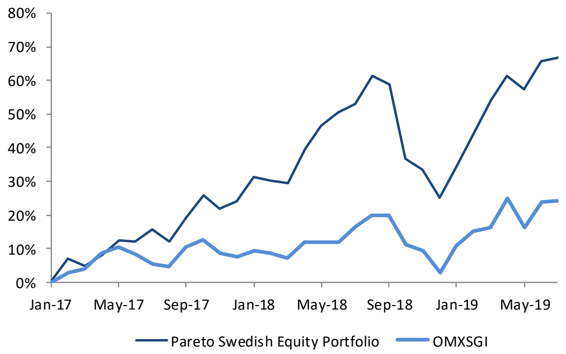


ABB – BUY, TP SEK 220

ABB is late cyclical, and during 2019 we have seen a continued increase of order intake for the group of 3% in Q1 and 1% in Q2 despite weaker growth from primarily the automotive sector hitting the historic star performer Robotics & Discrete Automation. Order intake continues to be good for the less cyclical Electrification with order intake up 6% and 5% in Q1 and Q2 2019 reflecting a strong development in the global construction sector. Also, base orders in Industrial Automation and order intake 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, and we think ABB is one of the best bets on that cycle. However, most important is that 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 very aggressive repurchase program in the second half of 2020.

EKTA – BUY, TP SEK 165

Elekta is increasingly well placed to capitalise on a strong market, Chinese investments, an improved solutions portfolio and Unity over the next 2-4 years and beyond. Elekta has improved both growth and margins lately and the recent takeaways from Varian confirm that the market remains very solid. The company is also in the process of launching Unity and we point to the fact that users are already using Unity to deliver a high proportion of hypofractionated RT treatment plans and the order intake has been boosted by the major GenesisCare order. Elekta is also in the process of improving the traditional Linac and RT solutions offer after a period of savings and an intense focus on Unity.

LEO – BUY, TP SEK 50

After a troublesome year where LeoVegas's two key markets, the UK and Sweden, have been severely hit by regulatory compliance Q2 will mark the bottom in terms of y/y growth – we estimate 6% while EBITDA margin should improve on Q1 to 13% due to better cost control and lower marketing spend. Already in Q3 the comparable will be easier, allowing for accelerating growth as the UK has bottomed out, Sweden is recovering following the Q1 2019 hit with LeoVegas gaining market share and Germany and Rest of World are growing strongly. Higher growth combined with better cost control and improved marketing efficiency, already seen in Q1, will allow for strong profit growth even though betting duties have hit the gross margin by ~600bps since Q2 2018. We believe that an attractive valuation combined with improving growth will increase investor appetite over the next few quarters.

STERV – BUY, TP EUR 13.5

Stora Enso has gone through a major transformation over the past decade, from being very dependent on the structurally declining Paper business, it is now seeing a majority of revenues and profits from areas geared for growth. We expect Stora Enso to recover in H2 as we expect pulp markets to bottom out and we continue to believe that the forest case in Stora Enso will become more visible in the mid to long-term (also fueled by Billeruds divestment to AMF). The current valuation remains attractive, a large discount to historical levels and indicates a significant drop in 2019 earnings which we do not see despite some short-term weakness mainly in pulp and containerboards. We expect comments in the Q2 report to support our view that markets are not deteriorating despite these negative headlines. Fundamentals for Stora Enso continue to look good, the transformation continues and the demand/supply for pulp is attractive in the coming years. The valuation gap to the sector started to close in recent years and as the transformation continues we believe that the revaluation will continue with likely multiple expansion after the Bergvik split which has now been completed. On top of the valuation potential, Stora Enso still provides one of the highest yields in the sector, ~6% in the coming years without holding back on potential paperboard conversion investments. We believe that the share remains oversold and that it is a bargain at these levels, even if 2019 profitability were to come down 10-20%, as there is significant upside based on a conservative multiple (6x EBITDA) and the forest value we have applied is far from aggressive.

TELIA – BUY, TP SEK 45

Telia is aiming at expanding its free cash flow from operations significantly over the coming few years. Guidance for 2019 is for an OFC growth of around 20%. The business has several efficiency initiatives in place and is also targeting to generate substantial synergies from both the finalized GET acquisition and the pending acquisition of Bonnier Broadcasting. Telia has also identified substantial CapEx synergies that should enhance the OCF. Since Telia aims at distributing at least 80% of the OCF, we believe the company has potential to substantially raise its shareholder distributions which should have a positive impact on the valuation of Telia.

GREEN – BUY, TP SEK 46
Ahead of the Q2, which is a seasonally strong quarter, we have raised our EPS estimates for 2019 and 2020 by 5% each, now incorporating the recent acquisition of Mark & Trädgård Skottorp - with a substantially higher EBIT margin of c.18% in 2018 compared with Green at just a few per cent. In Q2, we expect Green to have continued to grow sales substantially y/y due to the recent acquisitions (up c.88% on Q2 2018). Moreover, in our view, there is significant upside in synergies from, mainly, the acquisition of Svensk Markservice (which the company recently consolidated) and from total earnings momentum going forward. On 16 April, Green's share started trading on Nasdaq OMX Stockholm's main market, which we view as positive.

STORY – BUY, TP SEK 175
Storytel is in a phase of strong operational progress. The offering grows in popularity in its domestic Nordic footprint. Internationally Storytel is launching the services in several new markets and is currently active in 16 markets with launches in 4-5 new markets expected in 2019. The subscriber base is likely to be at 835k by the end of the first quarter, for an increase of around 260k over the past twelve months. 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 in 2018. 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 – BUY TP SEK 30
Azelio is a Swedish Cleantech company offering a system that provides solar power on demand in a reliable and dispatchable manner – ultimately efficient overnight energy storage – thereby solving one of the major challenges with traditional solar power (intermittency). The system offers competitive economics relative to diesel-based gensets and solar photovoltaic (PV) panels + batteries in its target markets and has received strong customer interest ahead of the expected scale roll-out in 2020-21E. Operationally, the main event in 2019 will be the start-up of the verification project for the full system in Morocco scheduled for Q4. Another trigger over the next 6-12 months will likely be securing the additional funding required to reach positive cashflow, which we already account for in our target price and expect will be a straightforward process provided the company continues to deliver on its communicated plans. The share remains below the SEK 22 IPO price, and given the potentially transformational product we see this as a high-risk case but with significant share price upside from current levels. Also, Azelio recently announced the company will start to market its thermal energy storage solution and Sterling engine as a standalone product (without the heliostats and tower of the full thermal solar power system) and thereby expand the addressable market to any electricity grid in need of storage.

STENDÖRREN – BUY, TP SEK 141
Our main attraction is Stendörren's state-of-the-art logistics project, Greenhub Bro, northwest of Stockholm. We believe the company can continue to increase its EPRA NAV at a rapid pace in the coming years and the project could potentially transform Stendörren into a logistics player with several prime assets. As icing on the cake, the company could also develop residential building rights of up to 1,500 units over the coming years; an out-of-the money option in today's shaky market that could become in-the-money if the residential market picks up. The share is trading at a significant discount to our EPRA NAV for 2019e while the real estate sector is currently trading at a premium.

SECU – BUY, TP SEK 184
We expect Securitas to continue to benefit from strong underlying demand of its services across most of its markets. The company grew organically by 7% in the first quarter. The electronic security offering is showing strong growth in the range of 15-20% and is now accounting for 1/5 of total group revenues. Also, Securitas has initiated several efficiency programs which, together with the rising share of electronic security solutions sales should enable further margin expansion. In our view, Securitas has a defensive profile with a good growth profile.