

June portfolio

Our model portfolio was up 3.9% in May, while the OMXSGI index was up 1.7% during the same period. Year to date, our portfolio is up 12.4%, while the benchmark index is up 10.3%. For June, we keep 5 of 10 stocks, replacing Cavotec, RaySearch, Vostok Emerging Finance, International Petroleum Corporation and Tobin Properties with Bilia, Elekta, Platzer, Enquest and SCA.

Performance for our May portfolio

Our portfolio was up 3.9% in May, while the OMXSGI benchmark index was up 1.7% during the same period. Seven stocks beat the OMXSGI, while three stocks underperformed. The best performers in our portfolio were Cavotec (+13.4%), Victoria Park (+11.3%), RaySearch (+7.7%), and Stillfront (+6.8%). The worst performer in May was International Petroleum Corporation (-8.4%).

5 new shares in our June portfolio

In our June portfolio, we keep Investor, Kone, SOBI, Victoria Park and Stillfront, and replace Cavotec, RaySearch, Vostok Emerging Finance, International Petroleum Corporation and Tobin Properties with Bilia, Elekta, Platzer, Enquest and SCA. In Bilia, we see the c.27% relative underperformance YTD as unwarranted and see acquisitions in Central Europe as a potential trigger in the near-term. Elekta report earnings on 1 June, and we view the recent share price weakness as more than fairly reflecting the risk of a miss relative to consensus expectations. In Platzer – a company we recently initiated coverage on – a possible divestment of residential building rights in the urban development area Södra Änggården could shed light on significant hidden values in the project portfolio already in Q2 2017. We expect Enquest to trade positively on the start-up of Kraken in June and a recovery in near-term oil prices. Finally, in SCA we see potential for an extension of the recent positive share price trend as the split of the company is expected in June; an event which we expect should further crystallize the value of the forest division.

Sector

Investment Strategy

Portfolio

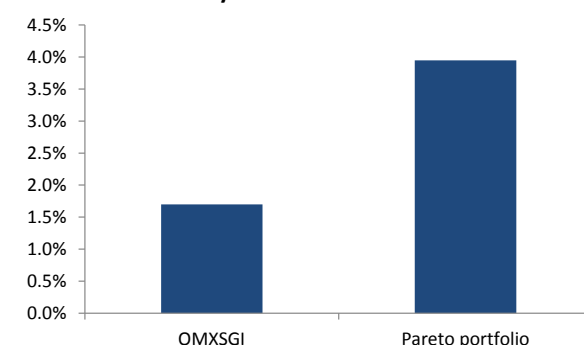
	Rec weight
INVE	10%
KNEBV	10%
BILI	10%
SOBI	10%
EKTA	10%
PLAZ	10%
ENQ	10%
SCA	10%
VICP	10%
SF	10%
Sum	100%

Performance

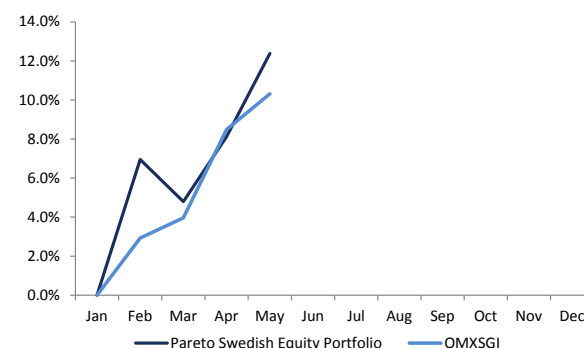
	Index Value 31/05/2017	Performance last period	Performance 2017 ²⁾
Total Portfolio ¹⁾	112.4	3.9 %	12.4%
OMXSGI ¹⁾	110.3	1.7 %	10.3%

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

Performance in May



Performance 2017 YTD



INVE – BUY, TP SEK 430

In addition to strong performance in the unlisted portfolio and low management costs, Investor is now working actively with increasing the transparency in the unlisted portfolio to crystallize further value, most recently with the release of supplementary information (introduced in the Q1 2017 report) with estimated values for the unlisted businesses. The estimated value for Mölnlycke was slightly higher than consensus (SEK 54bn vs 51bn), which is positive but we believe that it is equally important that operational improvements will now be more quickly reflected in the reported numbers. Also, the capital markets day provided access to the companies in the unlisted portfolio which was much needed given the time elapsed since the last CMD. In our view these efforts will help to reduce the NAV discount further as it addresses the issue of value discrepancies and helps to highlight the long-term strategic focus and strong performance for Patricia Industries.

KNEBV – BUY, TP EUR 50

Kone is a premium company that has lagged the industrial sector for the past year, mainly due to its exposure to the Chinese elevator market which fell double digits during 2016. However we believe inventory levels in lower-tier cities in China will continue to come down, which will support prices ahead. Revenues will also be supported by the strong backlog in North America. We estimate a 4% EBIT CAGR in 2017E to 2019E with limited downside given the stable service business.

BILI – HOLD, TP SEK 225 (under review)

Bilia's share price has decreased by 17% YTD (OMXS c.+10%) due to investor concerns regarding car sales. However, we view the concerns as overdone given our expectations of a flat to slightly positive underlying Northern European car sales going forward. Moreover, being a one-stop shop for vehicle services, repair works and car sales (working with service subscriptions, tying the customers closely to Bilia, increasing customer loyalty and retention rates), fluctuating car sales are not that relevant since service margins are tenfold higher than car sales margins. Also, Bilia is favourably positioned towards car brands that are outperforming car sales growth in its underlying markets (e.g. Volvo & BMW). Acquisitions in Central Europe are potential triggers in the near-term. Recommendation and target price under revision.

SOBI – BUY, TP SEK 200

Sobi remains one of our top picks within the health care sector, as we believe that the market underestimates the commercial opportunity of its haemophilia products Elocta and Alprolix. We also believe the market to have an overcautious stance regarding the potential competitive threat that might come from e.g. ACE910 from Roche. Clinical trials with new improved haemophilia products will start later in 2017, and clinical trials will also start in the very interesting indication of Immune Tolerance Induction with Elocta, with the possibility to multiply the commercial potential for the product. A near term trigger will be the potential sale of PartnerProducts, a deal that might fetch SEK 1.6-3.2 billion, based on price/sales multiples of 2-4x. Negotiations with interested parties are ongoing.

EKTA – BUY, TP SEK 105

The recent decline in the share price reflects in our view shareholders' scepticism about consensus estimates ahead of the Q4 2016/17 report, due out 1 June. While we agree there is a risk that Elekta could miss the consensus order intake number, the recent decline in share price has, in our view, skewed the overall risk/reward towards the upside ahead of the report.

PLAZ – BUY, TP SEK 58

Platzer is a real estate company in Gothenburg, with the majority of the property values being offices in the central parts of the city. The company also focus on extensive urban development projects, with the strategy to develop and divest building rights for residential use in order to focus on developing and managing commercial properties. In Q2 2017, Platzer commenced the process to divest residential building rights in the urban development area Södra Änggården. Such divestments should shed light on what we argue are significant excess values of the 150,000 sqm residential- and 50,000 sqm commercial building rights the company expects to create in the area. We assume total values of SEK ~1.8bn and as the area currently mainly consists of industry/logistic properties, we assume book values of a mere SEK 364m together with estimated exploitation costs of SEK 400m. The estimated excess values for the building rights thus reaches SEK ~1.0bn or SEK 8.75 per share. As we acknowledge these values could, at least partly, be made visible already in Q2 2017, we include Platzer in our June portfolio.

ENQ – BUY, TP SEK 7.5

Enquest is on track to deliver first oil from its transformational Kraken development before the end of June 2017, and as a result recently reaffirmed its FY2017 production guidance of 45-51 kboepd and its unit opex and capex targets for the year. Kraken production will meaningfully improve Enquest's financial position and enable deleveraging of the balance sheet over the next few years. In addition, we expect a rebound in near-term oil prices over the remainder of 2017.

SCA – BUY, TP SEK 330

We expect the positive momentum for SCA to continue in June when the split of the company is expected. 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.

VICP – BUY, TP SEK 36

The share continued its positive price trend in May and was up 9% during the month, following a 6% share price increase in April. The share still offers material upside with both near- and long-term potential with new property acquisitions as imminent triggers. We focus primarily on the extraordinary NAV growth (11% q/q in Q1, 61% 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 Q1 report was yet another proof of the business model, in our view.

SF – BUY, TP SEK 100

We identify several share price triggers in 2017 where the global launch of the mobile game Siege Titan Wars (guided for June) is to be seen as the largest. The new browser game Conflict of Nations is now in full scale release in initial traffic look very promising and is likely to contribute to H2 2017 revenue. We also see potential news flow for the Unravel sequel and Coldwood's own game IP make 2017 highly interesting and we argue a large part of the current market cap is justified by Bytro alone. After the slightly softer-than-expected Q1 report, Stillfront issued a SEK 110m bond which has partly already funded the acquisition of eRepublik Labs at an initial price of EUR 7.5m of which EUR 4m will be paid in cash. This acquisition is not yet included in our estimates and since only EUR 4m of the SEK 110m bond is spent we expect additional