

April portfolio

March saw one of the sharpest equity market sell-offs in history as the COVID-19 virus spread rapidly outside of China, in particular in Europe and the US, prompting government-imposed restrictions on social interactions and travel and by extension overall economic activity. The OMXSGI benchmark dropped 13% – after a strong comeback during the final week of the month – while our portfolio was harder hit by the market turmoil and dropped 20% during the month. In our portfolio, Embracer (+6%) and Arjo (+2%) were star performers during the month, while IPC (-63% on oil price collapse), Pledpharma (-43% on halted study) and Millicom/Tigo (-37% on EM exposure) underperformed. For March, we make three changes to our portfolio: we add Sedana Medical, Storytel and Nobina and remove IPC, ABB and Bygghpartner.

March portfolio in review

Global markets sold off sharply in March as the new COVID-19 virus spread rapidly across Europe and the US, prompting governments to implement far-reaching restrictions on social interactions and travel and by extension economic activity. The OMXSGI benchmark dropped 13% in March, while our portfolio was harder hit and fell 20%. 4 out of 10 stocks in our portfolio beat the benchmark in March, with notable outperformance by Embracer (+6%) and Arjo (+2%). IPC fell by 63% during March as the oil price collapse means its Canadian assets are struggling to make money and the company will need to display flexibility on its operational and investment plans for the year to weather the downturn. Pledpharma (-40%) and Millicom/Tigo (-35%) also clearly underperformed the benchmark during the month.

We make three change for April

For April, we make three changes to our portfolio which aim to make it less exposed to oil and cyclical sectors of the economy and instead add relative winners in the current market environment. Hence, we remove IPC, ABB and Bygghpartner, and replace these stocks with Sedana Medical, Storytel and Nobina. Sedana's product AnaConDa is well placed to treat the current increased inflow of patients in the ICU setting, which was confirmed by the positive profit warning for Q1 issued earlier this week. We expect this trend to continue in April. Demand for Storytel's services has likely also remained robust in the current market environment, as several other streaming media services have reported a surge in volume of streamed content. We expect the impact on Nobina from the virus situation to be more limited but rather view it as a steady case in the current turbulent times, as more than 97% of Nobina's revenues are contracted with 7.5 years average contract duration with publicly owned counterparties (which view public transport as a critical function of society).

Sector

Investment Strategy

Portfolio

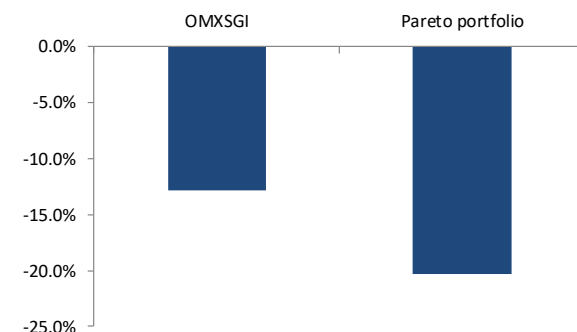
	Rec weight
Sedana Medical	10.0 %
Storytel	10.0 %
PledPharma	10.0 %
Azelio	10.0 %
Nobina	10.0 %
Millicom/Tigo	10.0 %
Embracer	10.0 %
Boule Diagnostics	10.0 %
Arjo	10.0 %
Kinnevik	10.0 %
Sum	100%

Performance

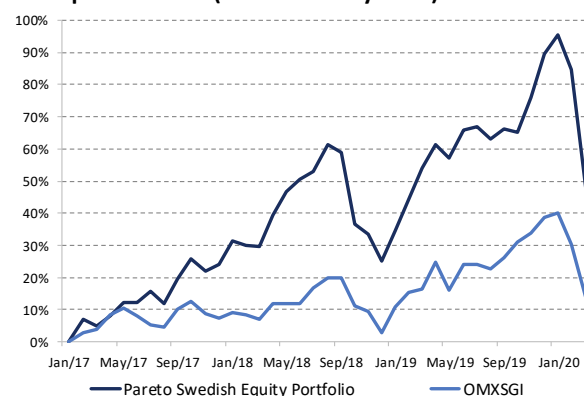
	March	YTD	Since start ⁽¹⁾
PAS Portfolio	-20.3%	-22.2%	47.3%
OMXSGI	-12.9%	-18.0%	13.7%
Relative performance	-7.5%	-4.3%	33.6%

⁽¹⁾ February 2017

Performance in March



Total performance (since February 2017)



ARJO – BUY, TP SEK 58

The COVID situation is, of course, a major disruption for many companies. However, Arjo offers hospital beds, mattresses, rentals and some wound care products which are experiencing increased demand. As for hospital beds, we do not expect Arjo to be able to match the demand, by far. This increased activity for some products is balanced by likely headwinds for Arjo's business in patient handling and hygiene. If the COVID disruptions continue deep into H2 2020, this balance could become more negative. Still, our base case is that the 2020 net effect is near neutral for Arjo, which will make the company a relative overperformer compared with many medical device companies and equities generally. Arjo is well placed to provide new ambitious targets for the next 3-5 years during 2020. We expect Arjo to provide these at the CMD in May or, if this event is rescheduled, probably after the summer.

BOUL – BUY, TP SEK 100

Now that Boule received warning letter closure from the FDA on 28 February, we argue that the share price should recover back to the same level it was before the warning letter of around SEK 100. Instead, the Boule share has slipped 28% since February due to the negative market sentiment related to the COVID-19 outbreak. Considering that the number of blood tests around the world is most likely surging right now, we believe Boule's resilience to a market downturn is strong. EPS growth of 38% in 2020E, easy comps in H1 2020 and over 50% recurring revenues are also compelling arguments for investing in Boule.

TIGO – BUY, TP SEK 502

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 peers but also on a stand-alone basis. We see a significant upside potential over the next 12 months (+75%).

EMBRAC – BUY, TP SEK 128

In line with many other gaming companies Embracer proved to hold strong defensive qualities during the COVID-19 crisis with shares being down only 3% since 24 February (despite all-time high of SEK 107 was reached on the reporting day 19 February). We have yet to publish our Q4 2019/20 Preview note, but we expect Embracer with 163 IP's in the portfolio to have a strong quarter driven by digital back catalogue sales supported by COVID-19, as social distancing is likely to outweigh negative effects on physical game sales. Regarding games development, there are no disruptions to any studio in the group so far, not even at Milestone in Milan, and developers also have good opportunities to work from home, thus delays due to COVID-19 seem limited but could of course happen. We repeat, the Q3 2019/2020 results was strong and the acquisition of Saber Interactive highly accretive adding strong complementary skills and proprietary technology in multiplayer/co-op games and a game-as-a-service (GaaS) business model that can be leveraged throughout the group. We remain buyers of Embracer as the strong games pipeline given notable releases such as Biomutant, Dead Island 2, and Saints Row are coming in the next financial year, which in addition to further sizeable M&A will help the group to close in on the industry majors.

SEDANA – BUY, TP SEK 250

The number of COVID-19 patients in Europe has exploded during March, and we believe Sedana's product AnaConDa is well placed to treat these patients in the ICU setting. Several studies have demonstrated that volatile anaesthetics like isoflurane modulate pulmonary inflammation in acute respiratory distress syndrome (ARDS), which is associated with the new virus. Thus, the demand for AnaConDa is strong, which was confirmed by the positive profit warning issued earlier this week when the company indicated a sales increase of about 50% in Q1 and 100% growth in March 2020, a trend we believe will continue going into April. We expect 50% sales growth in Q2, and 39% increase for FY2020.

AZELIO – BUY, TP SEK 30

Azelio's commercial verification installation is up and running in Morocco and we expect initial operational data within the next few months (although this will depend on virus restrictions around international travel being alleviated during Q2). Further, with 5 MoU's announced in recent months it is full steam ahead on several fronts preparing for the commercial ramp-up in 2021e. Based on the massive potential for an efficient energy storage solution such as Azelio's, we estimate a fair value range of SEK 2.5-3.5bn for the company, while the equity market values the company at less than SEK 1.0bn, which gives us high confidence in our Buy recommendation. A key risk to our view and target price of SEK 30 is potential delays to the operational results and news flow expected before the next capital raise is due in Q3 2020, which naturally have increased with the Corona virus outbreak.

PLED – BUY, TP SEK 58

PledPharma has had a rough time since the FDA-imposed clinical hold, upon which the French health authority (ANSM) followed, triggering the company to put the phase III program for PledOx (called POLAR) on hold. The hold was based on "less than five patients" (company statement) experiencing central nervous system related adverse events (AEs). We believe that these AEs are attributed to late-stage cancer and / or the FOLFOX chemotherapy regimen that runs simultaneously with PledOx. At the FDA it is the Anesthetic and Analgesic Drug Products Advisory Committee and not the Oncologic Drugs Advisory Committee that is handling POLAR. We believe that this influenced the decision to put a hold on POLAR. The Oncologic committee (& the DSMB) is more familiar with CNS side effects arising from FOLFOX and late-stage colorectal cancer than the "pain"-related division that has been handling it. Connecting the dots between the expertise of PLED's management, the insights from the phase II trial data (very important for statistical expectations of the phase III), the design of the phase III and more than 400 patients having received at least six FOLFOX cycles (200 up to 12 cycles), we believe that PledPharma could even readout the trial with positive results at its current stage (which could happen within the next 2 months). We expect an update and possible decisions from the company before May.

KINV – BUY, TP SEK 215

Kinnevik looks attractive at current levels. The discount to the listed NAV is high at 30%. We see upside on the two biggest assets, Zalando (Buy, TP EUR 42) and Tele2 (Buy, TP SEK 145). We have taken a more cautious view on the expected book values for the unlisted assets and reduced the value of these to SEK 40 (45). Our updated target price for Kinnevik of SEK 215 corresponds to a 15% discount to the target NAV of SEK 254. The company has a strong track record of building digital businesses in several interesting consumer categories. We believe the existing portfolio has assets with great potential to generate significant value over the medium term.

STORY – BUY, TP 230

Demand for Storytel's services has remained robust despite the current market conditions. Several streaming media services experience a surge in the volume of streamed content. We believe the situation is similar for Storytel. The company has a strong balance sheet that will allow for continued aggressive expansion if desired. The company targets to double the number of active markets from the current level of 20 to 40 by 2023. This allows for substantial growth in revenues. We believe the company can tenfold its revenue level over the next decade. In this phase of the journey, revenue growth is the primary driver of valuation. The margin structure for Storytel is attractive, with gross margins above 40% in several markets. In a mature state, we believe the EBITDA can be above 25%. Storytel has a high degree of proprietary content; this allows for good profitability long term.

NOBINA – BUY, TP 60

Ahead of Nobina's Q4'19/20E report (due out 8 April) we recently upgraded our rating to Buy (Hold) given the drastic share price decline the recent month (down 43%). Even though we believe that the COVID-19 effects will have an impact on the 21% of Nobina's revenue which consists of incentive contracts (e.g. Nobina is getting more paid if the number of passengers increases or if passenger satisfaction increases), we expect the impact on Nobina to be fairly limited. More than 97% of Nobina's revenues are contracted with 7.5 years average contract duration with publicly owned counterparties (which view public transport as a critical function of society). We are bullish on Nobina due to 1) the recent acquisitions and the potential for continued M&A, 2) our view of a better underlying growth trend in the coming years, and 3) our anticipation of a dividend yield of 8.7% based on 2019/20E.