February Portfolio

Sector | **Investment Strategy**

The equity market in Stockholm has started 2019 on a positive note after the tough end to 2018. Our model portfolio was up 7.4% in January, compared to the OMXSGI benchmark index which was up 7.6%. The nearly in line performance relative to our benchmark masks some material moves in our portfolio, with Bioinvent and Stora Enso outperforming the benchmark by nearly 10%, and Aspire Global lagging by 12%. For February we keep 8 of 10 stocks, replacing Stora Enso and Aspire Global with Essity and Recipharm.

January Portfolio

After a challenging Q4’18 for our relatively mid and small cap geared portfolio, the rebound in market sentiment in January has provided relief. Our portfolio was up 7.4% during the month, which is essentially in line with our benchmark index which was up just slightly more at 7.6%. 5 out of 10 stocks in our portfolio beat the benchmark index: Bioinvent, Stora Enso, Elekta, IPC and Stillfront.

Two new stocks in our February portfolio

In our February portfolio we keep 8 of 10 stocks, replacing Stora Enso and Aspire Global with Essity and Recipharm.

We add Essity to our portfolio after a strong Q4 report on 31 January where the price/mix and cost savings offset more cost pressure than we expected. The margin turnaround came one quarter earlier than we had estimated and we believe that it is time to catch the train now leaving the station. Margins bottoming out is what the market has been waiting for, and we believe the improvement in earnings is set to continue in 2019. We expect positive estimate revisions to support the share in the near term.

We also add Recipharm, a steady consolidator in the medical CDMO (Contract Development Manufacturing Organisation) industry with a global presence. The share price has started to gain pace after a period of share price pressure since August 2018. The fundamental performance is supported by a mix of savings (mainly in Sweden), support from recent acquisitions, improved support in India and support from Recipharm’s four internal capacity investments. The tailwind from earlier investments is likely to boost organic growth until mid-2020, and we expect strong share price performance through 2019.

Portfolio

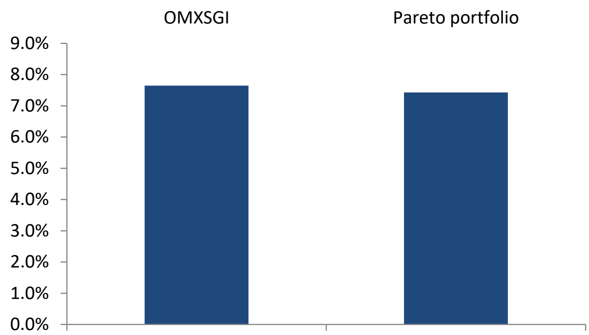
	Rec weight
Essity	10%
ABB	10%
IPCO	10%
Nobina	10%
Stillfront	10%
Recipharm	10%
Elekta	10%
Kinnevik	10%
Xvivo Perfusion	10%
BioInvent	10%
Sum	**100%**

Performance

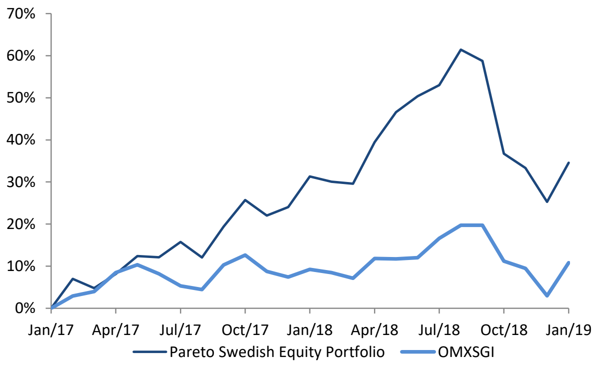
	Performance		
	January	YTD	Since start[1]
PAS Portfolio	7.4%	7.4%	34.6%
OMXSGI	7.6%	7.6%	10.8%
Relative performance	-0.2%	-0.2%	23.7%

[1] February 2017

Performance in January



Total Performance (since February 2017)



ESSITY – BUY, TP SEK 285
We add Essity to our portfolio after a strong Q4 report (31 January) where the price/mix and cost savings offset more cost pressure than we expected. The margin turnaround came one quarter earlier than we had estimated and we believe that it is time to catch the train now leaving the station. Margins bottoming out is what the market has been waiting for, and with further sales price increases in the cards, some relief on input costs (pulp down 5% since the highs and oil down ~25%) and further cost savings, we believe the improvement in earnings is set to continue in 2019. While we still see the share trading at a relatively high valuation relative to 2019E, we believe that Essity is a share to pick up now as the earnings sentiment turns. We expect positive estimate revisions to support the share in the near term.

SF – BUY, TP SEK 232
In Q4, we expect Stillfront to set new all-time highs in both revenue and adjusted EBITDA. Stillfront Core continues to show strong underlying y/y growth, supported by Bytro Labs and Babil Games' assets, while the acquisitions of Imperia Online (consolidated 1 October) and Playa Games (1 December) add to segment revenue in Q4 and beyond. Goodgame's revenue seems to be in line with our previous estimate even though MAU/DAU has contracted q/q, clearly indicating loyal fans continue to play and pay. Lower MAU/DAU and other web statistics indicate Stillfront has held back on UAC in Q4 within the Goodgame portfolio – the main reason why we have raise our EBITDA estimate. With 11 studios and ~30 games live Stillfront has become complex to follow, which is why we stress it is important to realise that Stillfront sees itself as one company that is very data driven in its decision-making. This is why UAC is always allocated to the games that give the best ROI at every point in time and why one shouldn´t focus on growth of a specific studio.

ABB – BUY, TP SEK 240
ABB is late cyclical and during 2018 we have seen a takeoff in order intake for the the industrial capex related divisions Robotics and Motion and Industrial Automation. Base orders in Q3 were up 12% in Robotics and Motion and 4% in Industrial Automation supported by a recovery in demand from mining, marine, oil and gas and not least general engineering. In the other two divisions Power Grids and Electrification base orders were increasing by 12% and 3% in Q3 reflecting a strong growth for connecting renewables energy and a stable demand in construction. Thanks to the late cyclical demand, we expect ABB to deliver a stronger Q4'18 report than consensus expects and also a strong 2019-2020 period overall. We are bullish to the global capex cycle and see at least another two tears of growth, we think ABB is one of the best bets on that cycle and we should not rule out that structural changes may boost the share price as well. Valuation is attractive with an EV/EBIT multiple of 11 for 2018. The Q4'18 report is due 28 February.

NOBINA – BUY, TP SEK 75
An improved contract performance due to raised contract maturity age and an increased share of incentive contracts will lead to a good EBT growth in the coming years. Nobina's sales are characterized by stability and predictability as its revenues are on long-term contracts (c.8 years) with publicly owned counterparties. Moreover, the contracted compensation is index linked, which increases the stability of margins. We are bullish on Nobina due to: 1) the acquisition of Samtrans, 2) the acquisition of De Blaa Omnibusser 3) the divestment of Swebus (loss of SEK 36m in 2017/18) and 4) our view of a better underlying growth trend in the coming years. The company will see a large bulk of market tendering processes in the coming quarters, meaning higher potential sales growth with possible upside in estimates – as well as the potential for continued M&A.

RECI – BUY, TP SEK 170
Recipharm is a steady consolidator in the CDMO (Contract Development Manufacturing Organisation) industry with a global presence. The share price has started to gain pace after a period of share price pressure since August 2018. The fundamental performance is supported by a mix of savings (mainly in Sweden), support from recent acquisitions, improved support in India and support from Recipharm's four internal capacity investments (the company has invested >SEK 1bn). The tailwind from earlier investments is likely to boost organic growth until mid-2020. Brexit could also trigger additional demand for Recipharm's D&T business (services and some product sales) as well as additional carve-out opportunities.

BINV – BUY, TP SEK 5.1

BioInvent is a biotech company with a broad but underappreciated pipeline of first-in-class and potentially best-in class projects. Besides a research platform which generates new antibodies, validated by Pfizer, the company has broad capabilities to drive value through clinical trials and also possess its own manufacturing, a very important piece for companies developing biological drugs. The new management team is adamant to drive shareholder value through aggressive development of the pipeline. Besides our NPV value, peer valuation and deal activity more than well supports our SEK 5.1/share target price.

XVIVO – BUY, TP SEK 160

The PMA approval for XPS with Steen Solution; probably the biggest event in the history of the company, is expected any day, but the share price has dropped during the last couple of months, underperforming the broader market. As stated before, the approval will come some 9 months ahead of our previous estimates, prior to the early filing during the spring. The swift filing is an indication, we believe, of the regulatory authorities' willingness to see products like Steen Solution on the market as the limited supply of organs is not going away. With a PMA approval, reimbursement codes and a collaborator in United Therapeutics, 2019 has all the ingredients to form the basis of a stellar year for the company.

EKTA – BUY, TP SEK 155

Unity is now approved in both Europe and US and the Unity consortium is also well underway to bring added features to the system which will improve support from the larger premium Linac market. During 2019 we argue improving growth in a good market for RT solutions as well as a solid Medtech market generally will benefit Elekta. Elekta is likely to find substantial support both from Unity, an improved software offer, expanding sales organization in US and Emerging markets, and a likely launch of a new Linac system towards the end of 2019. After 2019 we expect more substantial Unity sales, support from an extensive investment program in China and that Elekta will start to find operational leverage from higher sales. Elekta still needs to improve in the US and this is also more likely now with the support from the Unity launch, improved software and an extended sales organization.

KINV – BUY, TP SEK 320

Kinnevik has an unparalleled track record of creating strong businesses in the telecom and media spaces and has generated substantial returns to its shareholders over time. Its biggest holding, Zalando, has clearly underperformed recently due to weaker-than-expected sales. We believe these problems to be of short-term character and expect the company to return to stronger growth and profitability in Q4 and onwards. We see significant upside in Zalando, which accounts for close to 40% of Kinnevik's NAV, while we have a more neutral stance on the telecom holdings Millicom and Tele2 which constitute the vast majority of the remaining NAV..

IPCO – BUY, TP SEK 65

IPCO has underperformed Scandinavian E&P peers since early Q4'18 on the back of the proposed acquisition of Blackpearl Resources and weak oil prices – initially the Canadian WCS price and then Brent and WTI. However, these oil prices have all recovered so far in 2019, which sets the stage for IPCO to recover over the coming months. So far IPCO has lagged oil and E&P peers YTD, as the market is in somewhat of a wait-and-see mode with regards to the Blackpearl assets. We see the Q4'18 report and CMD on 12 February as good opportunities for IPC to highlight the underlying value of these assets as sources for long term reserves and production growth.