October Portfolio

Sector Investment Strategy

Our model portfolio was down 1.7% in September, while the OMXSGI benchmark index was flat during the same period. For October 2018 we keep 7 of 10 stocks, replacing Volvo, Kinnevik and Millicom with Veoneer and Doro.

September Portfolio

Our monthly portfolio was down 1.7% in September, while our benchmark index was flat; a relative underperformance for our portfolio of 1.7%. 2 out of 10 stocks beat the benchmark index: Isofol and Stora Enso.

2 new stocks in our October portfolio

In our October portfolio we keep 7 of 10 stocks, replacing Volvo, Kinnevik and Millicom with Veoneer and Doro (9 stocks in total). We include Doro as we see that share price weakness ahead of their Q3 report presents a good buy opportunity. Doro's Q2 report was a mixed bag but it showed a strong order intake which we believe will be reflected in the Q3 report with revenue going to positive y/y growth after five consecutive quarters of negative growth. Strong growth in Services is the most important key to our positive view since Doro is about to transform itself to a service provider, which would justify a multiple expansion. In September we initiated on Veoneer and we now include it in our portfolio arguing that the company, with a leading market position within the structurally growing active safety market for automotive, will continue its solid growth path towards its ambitious but in our view achievable sales targets for the coming years. We also believe that Veoneer could be an acquisition target in the coming years which should provide upside for the share.

Portfolio

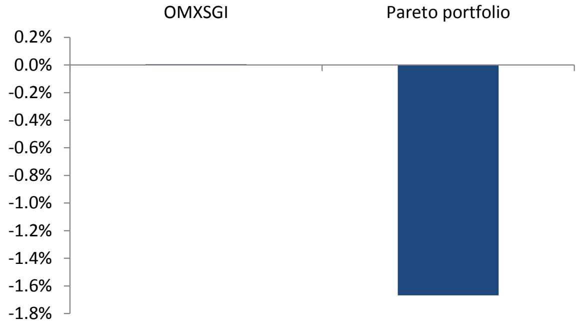
	Rec weight
Stora Enso	11.1 %
ABB	11.1 %
Veoneer	11.1 %
IPCO	11.1 %
Stillfront	11.1 %
Aspire Global	11.1 %
Isofol	11.1 %
Elekta	11.1 %
Doro	11.1 %
Sum	**100 %**

Performance

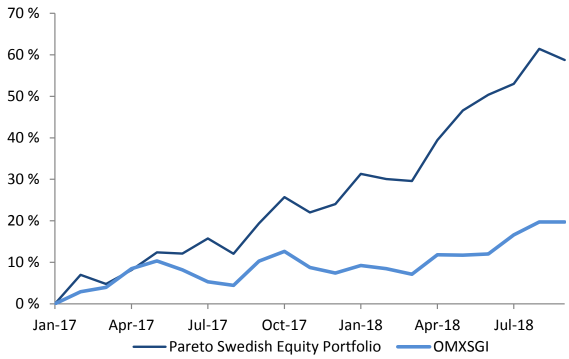
	Index Value 31/09/2018	Performance last period	Performance 2018 2)
Total Portfolio 1)	128.0	-1.7 %	28.0%
OMXSGI 1)	111.5	0.0 %	11.5%

1) Rebased to 100 as per 31/12/2017 2) From 31/12/2017

Performance in September



Total Performance (since February 2017)



STERV – BUY, TP EUR 21

Stora Enso has gone through a major transformation over the past decade, from being very dependant on the structurally declining Paper business, it is now seeing a majority of revenues and profits from areas geared for growth. With the rampup of the Beihai board mill in China and the decision not to invest in a pulp mill, Stora Enso is now closer to the end of its long transformation phase. Stora Enso had a strong run in 2017 and we expect this to repeat in 2018, Behai is on track, market continues to be very healthy and valuation is still looking attractive. The valuation gap to the sector started to close in 2016-17 and as the transformation continues we believe that the revaluation will continue with likely multiple expansion after the Bergvik split. On top of the valuation potential and despite the strong share price performance in the past year, Stora Enso still provides one of the highest yields in the sector, ~4-5%% in the coming years without holding back on potential cartonboard conversion investments. We believe that the share remains oversold after the earnings miss in Q2 and that the Q3 report on October 26th could be a potential trigger after what we believe was a relatively conservative guidance in Q2.

SF – BUY, TP SEK 299

Stillfront's Q2 2018 report was slightly weaker on EBITDA due to higher than expected user acquisition costs (UAC) while revenue topped our adjusted revenue estimates as Stillfront Core had a very strong quarter while Goodgame was marginally weaker. As Q2 has passed we focus on the future and Stillfront has a healthy pipeline of recently launched games ready to be ramped up in H2 2018/2019 as well as a pipeline for acquisition targets, which sounds promising for future growth. Q3 is normally a seasonally weaker quarter but we expect revenue to grow q/q as Q2 was affected by the World Cup, warm weather and high UAC prices. Several games have a strong momentum and with new games releases and normalised marketing prices Stillfront targets to push marketing from September and onwards. We expect to see a more noticeable effect in Q4 2018/ Q1 2019 from the marketing push we foresee for five recently launched games. The shares have been weak in September, possibly due to fear of expiry of the lock-up for former Goodgame shareholders. With a placing of 850k shares now being settled 28 September that issue should have been sorted out. In addition, Stillfront announced 21 September that it will acquire 100% of Bulgarian Imperia Online JSC, an attractive acquisition in our view that brings a number of new games and a pipeline.

ASPIRE – BUY, TP SEK 50

Despite already having high expectations for Q2, Aspire delivered an even stronger report, with a 44% EBIT beat. Growth seems broad based over both B2C and B2B and across geographies and despite a lack of guidance for the start of Q3, we believe that the good momentum in deposits and new customer intake has continued into Q3, especially after attending the September CMD. We believe a strong Q3 report could change investor sentiment as Aspire seems to have taken a step-up in growth rates with both B2B and B2C performing well. Apart from continued strong operational deliverance, we see further share price triggers in M&A.

ABB – BUY, TP SEK 255

ABB is late cyclical and in Q1 but especially in Q2 we saw a takeoff in order intake for the both the industrial capex related divisions Robotics and Motion and Industrial Automation. Base orders in Q2 were up 16% in Robotics and Motion and 9% 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 4% and 7% in Q2 reflecting a strong growth for connecting renewables energy and also a good global good demand in construction. Thanks to the late cyclical demand, we expect ABB to deliver a stronger than expected second half of 2018 and also a strong 2019 and probably also 2020. 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 13 for 2018.

VNE – BUY, TP SEK 550

On 5 September we initiated coverage of Veoneer with a Buy rating and a target price of SEK 550. We believe that the company, with a leading market position within the structurally growing active safety market for automotive, will continue its solid growth path towards its aggressive but in our view achievable sales targets for the coming years. More importantly though, following the acquisition of e.g. Mobileye by Intel in 2017 (at EV/Sales 38x and EV/EBIT 114x), it has become increasingly clear that tech-companies but also automotive players can pay significant multiples for companies with important automotive market positions, such as Veoneer. Therefore, we believe that Veoneer could be an acquisition target in the coming years which should provide upside for the share.

DORO – BUY, TP SEK 60

Doro's shares have been weak ahead of their Q3 report due out 19 October, and we thus see a good opportunity to buy the shares. Doro's Q2 report was a mixed bag with net sales a bit soft but the solid order intake was one of the positive aspects and indicates that sales in Q3 are set to be good with a positive growth y/y after having shown negative growth in the previous five quarters. Strong growth in Services is the most important key to our positive view since Doro is about to transform itself to a service provider, which would justify a multiple expansion. We forecast Services to grow by 57% y/y, supported by the acquisition of the UK-based Welbeing, and we believe Services to account for 16% of total sales in Q3. Doro's objective is Services to reach 30% of total sales by 2022. The valuation is attractive with P/E 11x and EV/EBITDA 6x for 2018E.

ISOFOL – BUY, TP SEK 51

The chronology during October will be that the company will first receive the formal Special Protocol Assesment, SPA, from the FDA, documenting the design and endpoints of the study, and shortly thereafter, the first patient will be included in European arm of the pivotal trial. The start of this trial is the most important event for the company since its IPO, and we expect a share price reaction mirroring the importance if this event. Isofol is addressing one of the most common cancers, metastatic colorectal cancer (mCRC), and while there are fierce competition within many cancer types, the current pipeline for treating first-line mCRC is relatively thin. Isofol has hit most of its milestones since going public in 2017 but has not been rewarded for this.

EKTA – BUY, TP SEK 160

The next big event is the US marketing launch of Unity at the ASTRO conference (21-24th October, San Antonio). Elekta has secured 32 orders already and the recent CMD (27th September) we point to the fact that Unity is rapidly becoming more advanced. ASTRO is likely to become a Unity trigger both resulting in new Unity orders and another reason to expect Unity to be in a position to aim for a larger market earlier than expected. New Unity orders (we expect a FDA approval in late November or early December) and a generally good growth outlook is the main reason for our Buy recommendation as Unity is about to become a major game changer for Elekta. Unity could also open up new strategic opportunities for Elekta including a proposition or a bid from Philips.

IPCO – BUY, TP SEK 70

IPCO reported robust Q2 numbers with and strong production performance ahead of our expectations, the company also raised the mid-point guidance by 4%. In our view the cash generation of IPCO's portfolio remains the most attractive feature of the investment case, as we expected Q2 built on the equally strong Q1 in this regard with strong operating cash flow. Year to date IPCO's portfolio has generated just over USD 150m in operating cash flow compared to the current EV of USD ~800m. We expect the strong cash generation to continue in H2'18 with operating cash flow reaching USD ~300m for the full year. In addition, IPCO has reduced the net debt by 30% to USD 255m YTD, and the rapid deleveraging is expected to continue, although another major acquisition may be imminent.