Pareto Securities AB Equity Research

Equity Portfolio Sweden

2 May 2017

May portfolio

Sector

Investment Strategy

Our model portfolio was up 3.2% in April, while the OMXSGI index was up 4.3% during the same period. Year to date, our portfolio is up 8.1%, while the benchmark index is up 8.5%. For May, we keep 5 of 10 stocks, replacing SEB, SCA, Alfa Laval, Nobina and Tethys Oil with Kone, Cavotec, VEMF, IPC and Tobin Properties.

Performance for our April portfolio

Our portfolio was up 3.2% in April, while the OMXSPI benchmark index was up 4.3% during the same period. Five stocks beat the OMXSPI, while five stocks underperformed. The best performers in our portfolio were Alfa Laval (+10.0%), Tethys Oil (+7.5%), and Investor (+7.3%). Alfa Laval rode the strong momentum for the industrial sector through much of the reporting season before posting its own solid results late in the month. Tethys Oil recovered some ground as it had unjustly underperformed oil peers year-to-date. Investor benefited from strong reports from core listed holdings as well as the increased transparency for its unlisted holdings. The worst performers in April were Stillfront (-6.9%) and RaySearch (-5.5%). Stillfront continued the weak trend established in March as investors wait for news around new game launches, and RaySearch was hit by profit taking amid limited news flow. We keep both Stillfront and RaySearch in the portfolio as we expect near-term recovery for both shares.

5 new shares in our May portfolio

In our May portfolio, we keep Investor, SOBI, RaySearch, Victoria Park and Stillfront, and add Kone, Cavotec, Vostok Emerging Finance, International Petroleum Corporation and Tobin Properties. Kone is a premium industrial company that has lagged the sector for the past year, mainly due to concerns around the Chinese elevator market, which we view as overdone. Cavotec is undergoing a management change and a new strategic plan is in place, and we see good potential for large industrial orders in 2017. VEMF has lagged its main holding Tinkoff recently, providing a good buying opportunity to get in to this structural growth case (EM fintech). International Petroleum Corporation is a recently launched Lundin Group E&P company which aims to act as a vehicle for acquisition-driven growth. IPCO is currently doing a share buyback programme for up to USD 100m worth of shares at SEK ~32 which closes on 23 May (set up to offer an exit to Statoil). We expect an acquisition (debt-funded) to be announced relatively shortly after the buyback programme closes. In the case of Tobin Properties, we believe that earnings will increase significantly in Q1 (report due on 29 May). In addition, Tobin has topped up the project pipe-line considerably over the past three months, which bodes well for the future.

Portfolio

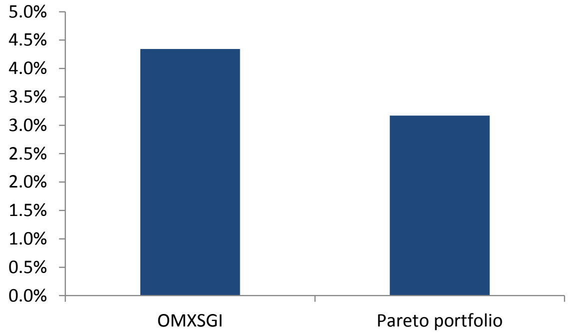
	Rec weight
INVE	10%
KNEBV	10%
CCC	10%
SOBI	10%
RAY	10%
VEMF	10%
IPCO	10%
TOBIN	10%
VICP	10%
SF	10%
Sum	**100%**

Performance

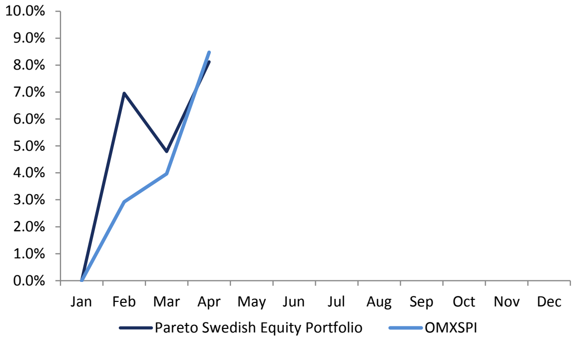
	Index Value 01/04/2017	Performance last period	Performance 2017 2)
Total Portfolio 1)	108.1	3.2 %	8.1%
OMXSPI 1)	108.5	4.3 %	8.5%

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

Performance in April



Performance 2017 (YTD)



INVE – BUY, TP SEK 430 (ex-div)
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 improvemens 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 industrial company that has lagged the sector for the past year, mainly due to its exposure to the Chinese elevator market which contracted by 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.

CCC – BUY, TP SEK 29
Cavotec is undergoing a management change and a new strategic plan is in place. On top of this we see increased confidence among customers in the industrial space to place large orders, and this can benefit Cavotec significantly during 2017E. The recent win of a EUR 17.5m order for Dubai’s new airport Al Maktoum International supports our view, and management is also more optimistic regarding orders and underlying markets looking ahead. At 9.0x 2018E EV/EBIT, a 35% discount to the industrial sector, we argue Cavotec is a very attractive stock to buy.

SOBI – BUY, TP SEK 200
We received a fair warning already in the Q4 report that the ongoing launch of the haemophilia portfolio is going well. The Q1 2017 report confirmed this, and sales of Elocta exceeded our estimates by 35%. The key focus for the rest of 2017 will remain the launch of the haemophilia portfolio, and with two good quarters under the belt, we feel it is time to take the foot off the break, and we recently raised our estimates for both Elocta and Alprolix significantly. The commercial structure was established in 2015 and 2016 and with sales taking off, Sobi gets a nice operational leverage. We would also remind investors that sales are still only taking place in a handful of the 55 countries where Sobi has the commercial rights.

RAY – BUY, TP SEK 300
We keep RaySearch in the portfolio and see a good entery point ahead of the ESTRO industry conference (5/5-8/5) and the Q1 report (12/5). For Q1 we forecast strong double digit growth and maintained momentum in order intake from RayStation. In our view RaySearch is still a sales growth story, and we expect the operational leverage to accelerate margin expansion in 2017. As such, maintained growth momentum will be the lead indicator for the share price performance.

VEMF – BUY, TP SEK 2.0
We consider VEMF a unique opportunity to get exposure to the structural development that we consider financial technologies will be able to drive in emerging and frontier markets. The VEMF share has been lagging the Tinkoff share price recently, providing an opening to buy it at a discount. We have a Buy recommendation and target price of SEK 2.0 for VEMF.

IPCO – BUY, TP SEK 45
International Petroleum Corporation is a recently launched Lundin Group E&P company which aims to act as a vehicle for acquisition-driven growth at a time when many other oil companies are under financial stress due to the low oil prices in recent years. IPCO was created through a spin-out of Lundin Petroleum's non-Norwegian, producing assets in Malaysia, France and the Netherlands, which means is has an asset portfolio which generates robust free cash flow at current oil price (and some resource upside), which can be leveraged to fund value-creating acquisitions. With the full backing of the Lundin Group, we view IPCO as well suited to deliver on its strategy. IPCO is currently doing a share buyback programme for up to USD 100m worth of shares at SEK ~32 which closes on 23 May (set up to offer an exit to Statoil). We expect an acquisition (debt-funded) to be announced relatively shortly after the buyback programme closes.

VICP – BUY, TP SEK 35

The share was up 6% in April and recovered from the negative performance in March. 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.

TOBIN – BUY, TP SEK 105

Tobin is a residential property developer of material size, focusing on the larger Stockholm area with an emphasis on attractive suburbs such as Nacka, Täby and Sundbyberg. Poor share performance since the IPO in late 2016 is likely linked to two consecutive quarters (Q3 and Q4 2016) with low levels of earning recognition from the residential developments coupled with one-off costs related to the listing. We believe that earning will increase significantly in Q1 (report due on May 29th). In addition, the company has topped up the project pipe-line considerably over the past three months, which bodes well for the future. A convincing Q1 report should have the potential to lift the share and we argue that the downside is limited with a 2018E P/E at 3x.

SF – BUY, TP SEK 110

Stillfront invested heavily in future growth during 2016 and we identify several share price triggers in 2017. News about the global launch of new promising game titles such as Siege Titan Wars and Conflict of Nations coupled with 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. The Q4 2016 report was better than expected and we expect results to continue to improve quarter on quarter in Q1 2017 (the Q1 report is due out 3 May). The SF share has traded down since its February highs due to limited news flow, insider selling of a board member and poor share liquidity. The proposed incentive program was approved at the EGM on April 18 and we now expect games such as Siege Titan Wars, Conflict of Nations and Heros Adventures to be released in Q2 2017, news that is likely to support the share price. Additionally, the world's largest gaming trade fair E3 is taking place June 13-15. Coldwood´s Unravel was exhibited at E3 in 2015 and it is not unlikely that Electronic Arts (owner of the IP) wants to show a demo for the sequel this time around.