



global investor by Jean Pierre Verster



An investment smorgasbord



Sweden has stood out this year for its unusual response to the Covid-19 crisis. But there are other ways in which the country stands out too.

The Nasdaq Stockholm is the largest of the Nordic stock exchanges, as measured by the total market capitalisation of all the companies listed there. It forms part of the broader Nasdaq Nordic exchange. This is a network of linked exchanges, all owned by the US Nasdaq, and includes the main stock exchanges in Iceland, Denmark and Finland. Norway is not included, with the Oslo Stock Exchange owned by Nasdaq competitor Euronext.

There are more than 300 companies listed in Sweden, operating across various industries. The six largest firms with primary listings in Stockholm are Atlas Copco, Investor AB, Volvo, Ericsson, Nordea Bank and Hennes & Mauritz.

Atlas Copco was founded in 1873 and manufactures industrial tools and equipment. Its four focus areas are air compressors (it is the world's leading producer), vacuum products, industrial products and power products. The air compressor division is the crown jewel, with a sustainable operating margin of more than 20% and a return on capital employed of almost 100% per year.

Still, notwithstanding its impressive history, we view Atlas Copco shares as moderately expensive at the current 400 kronor (about R733).

Investor AB can be thought of as Sweden's Remgro, although it is more than 10 times larger. An investment holding company founded in 1916 and still controlled by the Wallenberg family, Investor AB owns significant stakes in other listed companies such as Atlas Copco, ABB, AstraZeneca, Ericsson, Nasdaq, Saab and Electrolux.

These investments represent about two-thirds of Investor AB's NAV. The other third is mostly invested in private companies operating in high-growth industries such as medical devices. As with most investment holding compa-

nies, Investor AB trades at a discount to its NAV. At the current 20% discount, we view the shares as reasonably attractive.

The Volvo Group is a leading manufacturer of trucks, buses and construction equipment as well as marine and industrial engines.

It does not own Volvo Cars any more, which was sold to Ford in 1999 and on sold to Zhejiang Geely Holding Group in 2010.

Volvo Group's future competitiveness will be determined by how rapidly it develops technology for connected, electric and autonomous vehicles. The streamlined focus on commercial vehicles places Volvo Group in a better position, but we are concerned about the impact of the pandemic on the immediate demand for its products.

Ericsson operates as a multinational networking and telecoms company. It invented the Bluetooth technology protocol in 1989 and holds more than 54,000 granted patents.

But Ericsson has a somewhat chequered history. The company agreed to pay more than \$1bn to the Securities & Exchange Commission and the US department of justice in December 2019 to settle allegations of bribery in securing lucrative contracts from state-owned telecoms entities in multiple countries over the years. While Ericsson has exciting prospects from being a leader in 5G technology, we are waiting to see if the company has truly turned a new page.

Nordea became the biggest bank in the Nordic countries due to successive mergers of regional banks in the late 1990s. This seemingly saddled it with complexity, a bloated cost base and inadequate internal control systems. The bank's shares have been trading water



Stockholm Stock Exchange
Bloomberg News/Mikael Sjöberg

ever since, with bouts of controversy and regulatory fines along the way. The shares are trading at a discount to tangible book value, but the single-digit long-term return on equity justifies this low valuation.

Hennes & Mauritz, the second-largest clothing retailer in the world (after Spain's Inditex), operates eight brands, including the eponymous H&M. Founded in 1947, the group has about 5,000 stores in 74 countries. The past decade has been tough going, as increased scrutiny of labour practices in Southeast Asia, greater investment into sustainability initiatives and a shift towards online retail have put pressure on profitability. The past three months have been particularly difficult, and group revenue has dropped 50% from the comparative quarter in 2019. We are short Hennes & Mauritz shares.

Our favourite Swedish stock is Swedish Match, which traces its roots to "match king" Ivar Kreuger in the early 1900s.

It manufactures smokeless tobacco products, mostly nicotine pouches and snus – moist tobacco many Swedes like to place between their lip and gum for extended periods.

I have not volunteered to try out the benefits of this product, but the millions of people who get their nicotine fix in this peculiar way make for a very profitable business, one which investors have benefited from handsomely over the years.

Verster is CEO of Protea Capital Management

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