



DNB Nordic Equities – Update Q4 2022

Market update & performance

The last quarter of the year was once again driven by political uncertainties in Europe with the ongoing energy security crisis and high power prices. While governments are seeking to diversify away from Russian gas, they are at the same time keen to get re-elected which has meant for example setting up subsidies to support consumers with their increasing energy bills. And to fund these subsidies, they have used windfall taxation and price caps on electricity which has caused a lot of uncertainty for the green companies.

Norway, Finland and Sweden saw stock markets increase in the fourth quarter, with positive performance of around 10%, while Denmark increased with 15%. In terms of sector performance, energy was the losing sector together with IT, while health care and industry had a very strong quarter. This was quite in contrast to the overall year of 2022, where the winning sectors have been mostly energy and materials.

Fund performance and positioning

The fund underperformed its benchmark by 2,96% in Q4 with an absolute performance of 8,85% (institutional EUR share class). The reasons for the underperformance were mainly the trend shift (value to growth) in November, led by improving macro data, as well as the poor performance of green stocks during the quarter. The main contributors during the quarter were **ISS**, **Equinor**, **Ericsson**, **Neste** (Finnish oil refining company) and **Vestas**. On the detractor side, we have seen poor performance from the main green names. **Bonheur** (Norwegian utilities) and **Orsted** (Danish wind developer) have been hit by the windfall taxation which caused uncertainty on their earnings expectations. While **Nibe** (Swedish heat pumps) and **Otovo** (Norwegian solar panel installer) benefit from consumers' high electricity bills as they offer products that can bring those bills down.

In terms of portfolio positioning, **Vestas** was increased back into a top ten position. As a producer of wind turbines, Vestas has suffered from the high commodity prices, but has now very credible guidance to come back to normalized margins and will benefit from the structural growth in the sector. We also increased **Investor**, the Swedish investment company as a play on Sweden; we added to **Essity**, the tissue company, which has suffered from raw material inflation but now benefitting from prices coming down again. We also added to **Mowi**, the salmon farmer as the stock has come down a lot since the salmon tax introduced recently and since we still see good profitability, stable demand and a potential change in the proposed tax legislation. In terms of decreased positions, we sold out **Telia**, due to poor performance and we also decreased exposure to **Nokia**, as the growth of 5G seemingly will be lower than we hoped in 2023-2024.

The image shows a screenshot of the EURACTIV website. The top navigation bar includes 'EURACTIV' and categories like 'The Capitals', 'The Brief', 'Ukraine', and 'Intelligence'. Below this is a secondary navigation bar with 'Agrifood', 'Economy', 'Energy & Environment', 'Global Europe', 'Health', 'Politics', 'Technology', and 'Transport'. A banner at the top reads 'Digital policy ranks low on Swedish EU presidency's priority list, powered by EURACTIV Coacha'. The main article headline is 'Germany and France seek to match US green industry subsidies' by Jonathan Packroff, dated 19. des. 2022. To the right, a video player shows a title 'Von der Leyen calls for EU to "adapt" state-aid rules in answer to US green subsidy scheme' with a subtitle 'Joe Biden's \$369B subsidy package needs a 'structural answer', European Commission president says.' The video image shows Ursula von der Leyen speaking at a podium.

Outlook

The massive changes in European energy security will continue to drive the need to move to alternatives such as rooftop solar and heat pumps for example, as well as more aggressive renewable permitting and energy efficiency, and there are many interesting names in the Nordic region within this theme.

There are other tailwinds for the green sectors, such as the peak of the interest rates, which is important for the growth names with long duration and high growth, as it affects how we discount this growth into the future.

Secondly, the commodity prices potentially peaking is another important driver for the capex and the cost of these renewable products such as wind turbines or solar panels (which has been a massive setback for the sector last year). And despite the fact that power prices have gone up more than the commodities, the combination of the higher interest rates and the cost of producing the renewable equipment has hurt project margins and put a lot of projects on hold. And with the political uncertainty from windfall taxes that we've seen in the fourth quarter, a lot of projects have been halted or delayed.

Another positive tailwind for the green sectors will be the European response to the IRA (Inflation Reduction Act) in the US. Since the green industry in Europe could fall behind as the current subsidies through the IRA are largely benefitting American companies, we expect the EU to respond quite fast in. This policy could also positively impact European green companies.