Equity Research

Sustainability cases, August 30, 2022 16:12 CET

Sustainability Cases

Screening for green gold

Employing ‘green’ policy tailwinds…

… and the EU Taxonomy to find winners in our Nordic universe

Sustainability cases: Gränges, Nederman, Valmet, NIBE Industrier, Tomra and technical consultancy firms AFRY, Rejlers and Sweco

Handelsbanken Capital Markets

Contents

Josefin Johansson
+46 72 239 5641
Josefin.johansson@handelsbanken.se

Lina Blume
+46 73 070 8249
lina.blume@handelsbanken.se

In our Sustainability Cases update, we highlight our top picks from a sustainability point of view among the companies under our coverage. These are companies where we believe that sustainability-related issues are potential drivers of top-line growth on a 12-month to five-year horizon and should have a positive impact on the valuation. Our screening is based on: 1) a three-year OUTPERFORM or MARKET PERFORM recommendation, 2) EU Taxonomy potential, and 3) sustainability-related policy spending (primarily in Europe and the US). We find 15 cases under our coverage that tick the boxes for all three parameters, and we highlight eight names that we find particularly attractive.

Investment case

In our Sustainability Cases update, we highlight our top picks from a sustainability angle among the companies under our coverage. These are companies where we believe that sustainability-related issues are a potential driver of top-line growth on a 12-month to five-year horizon and should have a positive impact on the valuation. Our screening is based on: 1) a three-year OUTPERFORM or MARKET PERFORM recommendation, 2) EU Taxonomy potential, and 3) sustainability-related policy spending (primarily in the EU and the US). We are seeing a 'green' shift in many industries where regulatory changes and policy initiatives create opportunities for companies to develop a competitive edge and generate demand for greener solutions. We also believe the EU Taxonomy could boost the valuations of companies that score well as funds seek to maintain their green credentials, as well as highlighting companies that are well positioned to benefit from future policy development. We highlight eight attractive cases, namely: Gränges, Nederman, Valmet, NIBE Industrier, Tomra and technical consultancy firms AFRY, Rejlers and Sweco.

From bad to worse

Despite other global issues, sustainability remains high on governments' agendas, creating opportunities for companies

Since our last Sustainability Cases report in September 2021, we have gone from a COVID-19 crisis to Russia's invasion of Ukraine, an energy crisis, accelerating inflation and a looming recession. Despite all of these urgent issues, the momentum for investments enabling a transition to a more environmentally sustainable economy still appears strong, fuelled also by extreme weather events such as this summer's heatwave in Europe and the US Pacific Northwest. On a scale similar to the COVID-19 recovery packages, political action in the EU and the US aims to tackle issues such as energy prices and mitigate climate change. We believe the current wave of sustainability-related policy initiatives and regulations provides top-line tailwinds for companies supplying solutions related to, for example, the expansion of renewable energy, energy efficiency improvements in buildings and the electrification of transport systems, where investments can generate a secular growth trend that improves the resilience of market demand.

The EU Taxonomy is also a value driver for companies scoring well, we believe

There has also been action on the EU Taxonomy, including the first round of Taxonomy reporting from companies alongside the Commission's (controversial) inclusion of nuclear and gas power, which some argue undermines the credibility of the EU's "green dictionary". That said, we still believe that companies scoring well in relation to the framework could see positive effects on their valuations as funds seek to maintain their green credentials.

Table 1: Our three screening factors

Three-year HCM recommendation
OUTPERFORM or MARKET PERFORM

+

Sustainability drivers	→	Affecting
EU Taxonomy	→	Valuation
'Green' policy initiatives and regulation	→	Top line

Source: Handelsbanken Capital Markets

We identify 15 names that score well against our parameters; eight cases are particularly attractive

Against this backdrop, we have screened our Nordic coverage universe for names that we find score well, with regards to both sustainability-related policy initiatives and the EU Taxonomy. We identify 15 companies where the combination of the three-year recommendation, Taxonomy potential and top-line tailwinds from sustainability-related policy initiatives offer an appealing investment case. We highlight Gränges, Nederman, Valmet, NIBE Industrier, Tomra and technical consultancy firms AFRY, Rejlers and Sweco as being particularly interesting (see more on pages 13-20).

Table 2: Sustainability cases screening

	Company	Long term HCM rec (as per 30 Aug)	Taxonomy-aligned revenues HCMe FY2021
1	ABB	MARKET PERFORM	20-36%
2	AFRY	MARKET PERFORM	10-30%
3	Alfa Laval	MARKET PERFORM	5-10%
4	Assa Abloy	OUTPERFORM	12%
5	Atlas Copco	OUTPERFORM	12-17%
6	Catena	OUTPERFORM	58%
7	Electrolux	OUTPERFORM	2-3%
8	Epiroc	OUTPERFORM	1%
9	Gränges	OUTPERFORM	28%
10	Hexagon	MARKET PERFORM	1%
11	Holmen	MARKET PERFORM	8%
12	Husqvarna	OUTPERFORM	0-25%
13	Inwido	MARKET PERFORM	61%
14	Lindab	OUTPERFORM	20-66%
15	Metso Outotec	OUTPERFORM	n.a.
16	NCC	OUTPERFORM	n.a.
17	Nederman	OUTPERFORM	15%
18	NIBE Industrier	MARKET PERFORM	15-20%
19	Re:NewCell	OUTPERFORM	0%
20	Rejlers	OUTPERFORM	10-20%
21	Rockwool	MARKET PERFORM	79%
22	Sandvik	OUTPERFORM	5-15%
23	SCA	MARKET PERFORM	7%
24	Skanska	OUTPERFORM	n.a.
25	SSAB	MARKET PERFORM	18-28%
26	Stora Enso	MARKET PERFORM	5%
27	Sweco	MARKET PERFORM	10-30%
28	Systemair	OUTPERFORM	25-35%
29	Tomra	OUTPERFORM	60%
30	Traton	OUTPERFORM	0%
31	Valmet	OUTPERFORM	28-38%
32	Vestas	MARKET PERFORM	95-100%
33	Volvo	MARKET PERFORM	1%
34	Wartsila	OUTPERFORM	8%

	Company	Policy area(s)
1	ABB	Electrification of transportation, energy efficiency, renewable energy, climate adaptation
2	AFRY	Electrification of transportation, energy efficiency, renewable energy, circular economy, climate adaptation
3	Gränges	Electrification of transportation, energy efficiency in buildings, climate adaptation
4	Inwido	Energy efficiency in buildings
5	NCC	Renewable energy, climate adaptation
6	Nederman	Air quality and pollution prevention
7	NIBE Industrier	Energy efficiency in buildings, renewable energy
8	Rejlers	Electrification of transportation, energy efficiency, renewable energy, circular economy, climate adaptation
9	Rockwool	Energy efficiency in buildings, climate adaptation
10	Skanska	Renewable energy, climate adaptation
11	Sweco	Electrification of transportation, energy efficiency, renewable energy, circular economy, climate adaptation
12	Systemair	Energy efficiency in buildings, air quality
13	Tomra	Circular economy
14	Valmet	Energy efficiency, circular economy, renewable energy
15	Vestas	Renewable energy

	Company
1	AFRY
2	Gränges
3	Nederman
4	NIBE
5	Rejlers
6	Sweco
7	Tomra
8	Valmet

Source: Handelsbanken Capital Markets

Sustainable policy tailwinds and Taxonomy potential

The EU and national governments play key roles in creating opportunities for companies with "green" credentials. They invest directly in sustainability initiatives and, through a combination of spending and policy, they steer companies' "green" investments and reduce risk. The EU Taxonomy is intended to help investors allocate their funds in line with environmental objectives. Using our understanding of how these forces impact the companies under our coverage, we arrive at our top sustainability cases.

In the business of net zero

Three screening criteria

In this report, we have screened for names under our coverage that score well on three parameters, namely: 1) a long-term recommendation of MARKET PERFORM or OUTPERFORM, 2) Taxonomy potential and 3) "green" policy spending. In our view, a high score on all three indicates an attractive investment case in the light of rising ambitions for environmental and climate action in both public and private spending.

Table 3: Our three screening factors

Three-year HCM recommendation
OUTPERFORM or MARKET PERFORM

+

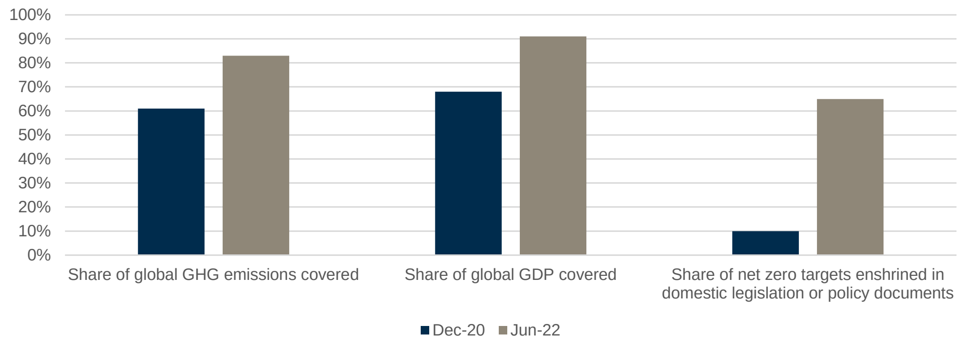
Sustainability drivers	Affecting
EU Taxonomy	Valuation
'Green' policy initiatives and regulation	Top line

Source: Handelsbanken Capital Markets

Both countries and companies are increasingly setting net zero targets...

Over the past few years, there has been an exponential trend in setting net zero targets for greenhouse gas (GHG) emissions, both on a company and a country level. According to Net Zero Tracker[1], at least 83% of global GHG emissions now have net zero pledges, covering 91% of global GDP in June 2022 compared with only 16% of global GDP in mid-2019. While there is still some way to go in terms of transparency and quality when it comes to GHG emissions targets, it is clear that companies increasingly see reducing their climate impact as key to their operations. This is further supported by net zero targets increasingly being set in domestic legislation or policy documents.

Figure 1: Global net zero targets



Source: Handelsbanken Capital Markets, Net Zero Tracker 2022

...but current actions are not enough, and tighter targets will mean more demand for "green" solutions

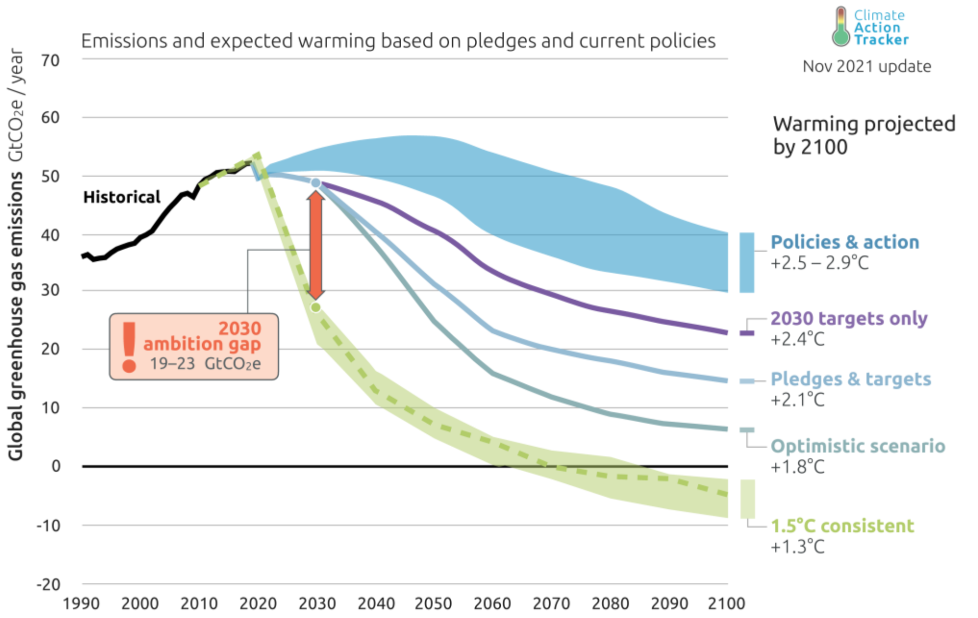
While targets appear to be proliferating, current policies (and targets) are not enough to put us on track for the 1.5 degrees Celsius Paris Agreement goal, but rather towards ~3 degrees, according to the UN. There is thus an ambition gap and a mismatch between current pledges and policy action. In our view, this mismatch

[1] The Net Zero Tracker is a global initiative led by the Energy & Climate Intelligence Unit, Data-Driven EnviroLab, NewClimate Institute and Oxford Net Zero.

means that more aggressive climate-related policies and action will be needed, boosting demand for solutions that help achieve the targets.

Current policies do not match global climate pledges, suggesting more policy action to come in our view

Table 4: Global temperature increase projections (by 2100)



Source: Climate Action Tracker (November 2021)

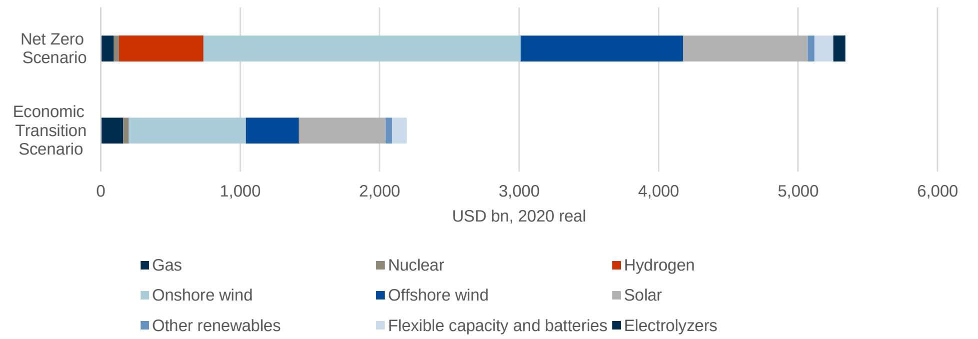
Sustainability extends beyond GHG reductions

Sustainable investments and policies are not only about reducing GHG emissions. Alongside climate action, we are also seeing an increasing policy, corporate and consumer focus on issues such as air pollution and climate adaptation as well human and labour rights. This is also reflected in the EU's Taxonomy for environmentally sustainable investments, which we will come back to on pages 10-11.

Even without more ambitious policies, investment in transitioning to a greener economy will increase

Achieving global climate and environmental targets is no small feat. Modelling the future investment needed for the transition to a "greener" economy, BloombergNEF finds that even in its more conservative Economic Transition Scenario (an economics-driven scenario building on existing policies where there is a clear and legislated mechanism for implementation), about another USD 2trn in cumulative investments in fossil-free production capacity is required in Europe over 2021-50, while in the "greener" Net Zero Scenario the figure is about USD 5trn. In other words, investments look set to continue to increase even if ambitions and policies do not rise much from current levels. These investments generate a secular growth trend, which improves the resilience of market demand for companies providing solutions that enable the green transition, we believe.

Figure 2: Cumulative investment in new electricity generating and renewable hydrogen production capacity by scenario, 2021-50



Source: Handelsbanken Capital Markets, BloombergNEF

Policy tailwinds

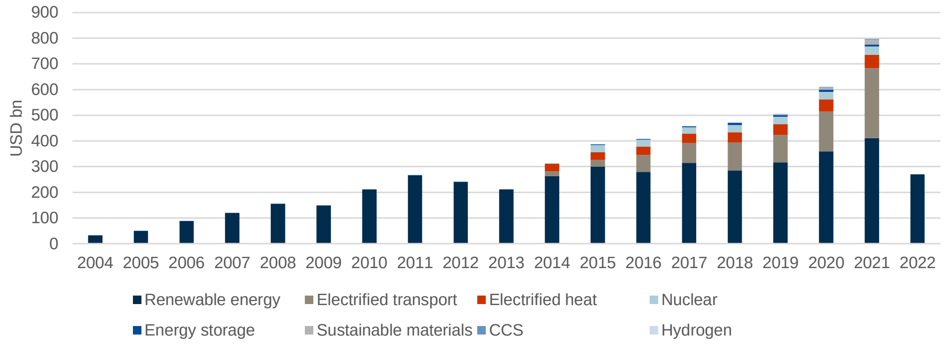
Muted risk appetite among investors given high inflation and recession woes…

On a more negative note, we find that the current inflationary environment and recession woes is not an ideal setting for promoting investment in new "green" technology. In addition to investors' more muted risk appetite, there is a concern (which is increasingly being highlighted) that the increased capital investment required to comply with environmental and climate objectives is contributing to higher inflation, or "greenflation". This is something that we dig deeper into on pages 28-29. However, the extent to which the climate will affect inflation is highly uncertain. It appears that both the US government (more accurately the Democrats) and the EU believe the benefits outweigh the costs. As stated by Isabel Schnabel from the Executive Board of the ECB: *"There is a price to be paid for going green at a pace that reflects the dual objective of safeguarding both our planet and our right to self-determination. But that price, including the fiscal support required to protect the most vulnerable members of society, is worth paying."*

… but announced initiatives should further spur trends already in motion

Political initiatives are no guarantee that objectives will be met or that money will start to flow, and there is always the risk that initiatives could fall through. Nevertheless, we believe the announced initiatives in the EU and the US (see pages 21-27) provide further tailwinds for trends that are already in motion, along with incentivising private investment. For example, BloombergNEF reports that energy transition investments increased by 58% in 2019-21, and that H1 2022 saw a new all-time high for investments in renewable energy made in a first half-year period.

Figure 3: Global energy transition investments



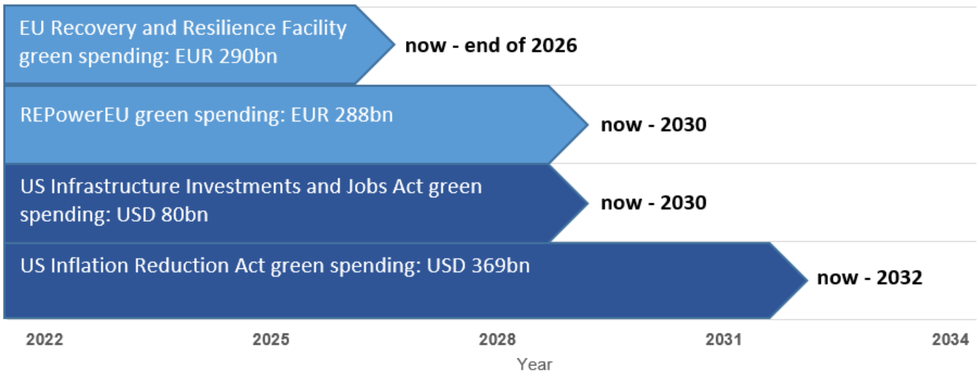
Source: Handelsbanken Capital Markets, BloombergNEF (as per August 1, 2022)

Perhaps even more importantly, this green spending and new regulations sets a clear path, helping to reduce the risk companies face when investing in new technologies, as well as, in some instances, forcing a sector to transform – e.g. by introducing a ban on petrol or diesel engines for new vehicles, which has been proposed by the EU Commission, for example.

Green winds of change are blowing in the EU and the US, key markets for the majority of our coverage universe

In both the EU and the US, which are the key markets for most of the names under our coverage, we see that "green" winds of change are blowing, generating a wave of environmental and climate policy initiatives. These initiatives aim to boost demand for solutions that enable emissions reduction and mitigate environmental impact across a range of sectors. We take a look at recent climate action and announced green spending in the EU and US in more detail on pages 21-27, but on an overarching level, it appears that "green" investments will receive a strong boost in the coming years. This is particularly the case for renewables, energy efficiency and electrification of transportation, which will yield a strong positive trend for the actors supplying the solutions required to 'green' these sectors.

Table 5: Recent environmental and climate spending initiatives (EU and US)



Source: Handelsbanken Capital Markets, EU Commission, BloombergNEF, The House Committee on Transportation & Infrastructure, the Whitehouse, Democrats Senate

Energy efficiency and shifting to fossil free energy now also a geopolitical affair

In addition, we find that Russia's invasion of Ukraine has pushed our dependence on fossil energy further into the spotlight. Now, shifting away from fossil energy is not only about climate change but has also become a geopolitical affair, with fossil energy dependency (particularly natural gas) increasingly being seen as a threat to national security. The combined objectives of energy independence and a greener economy have further spurred interest and action to accelerate the transition towards fossil-free, and in particular, renewable energy. This is reflected in the EU's plan (i.e. REPowerEU) to reduce its dependency on Russian fossil energy (see page 23).

Whatever the complexities of the environmental impact on inflation, we conclude that both the EU and the US appear to consider green spending essential, despite the recent inflation surge. Particularly in the EU, the spend is also driven by ambitions for energy independence, further supporting the business case for companies which can enable this green transition.

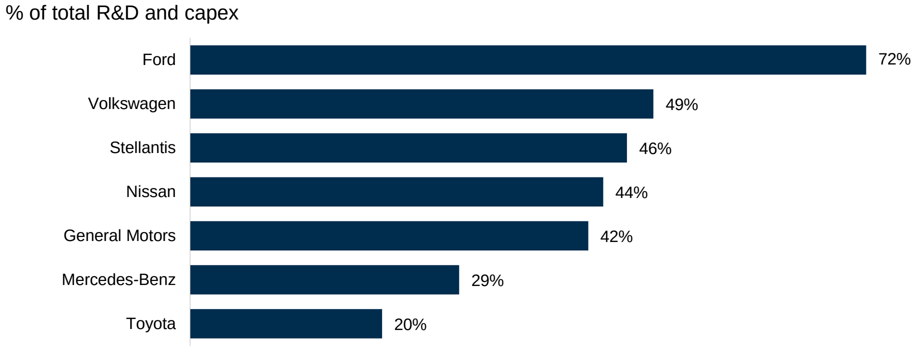
The trend is your friend

"Green" investments not immune to downturns in the economy, but "green" spending could support market demand

While "green" investments are not immune to downturns in the economy, we believe that the green spending and regulation could lead some sectors to benefit from a strong positive trend, particularly favouring companies that enable sectors such as energy, transport, industry and buildings to become greener and compliant with new expectations and requirements. This could make these companies more resilient (in relative terms) in a recession, with increasing "green" spending supporting the underlying market demand.

Taking electric vehicles as an example, the US Inflation Reduction Act plans to allocate USD 12bn to clean vehicles over the next ten years. Assuming USD 1.2bn per year, that equals ~2% of the five-year average capex of seven of the largest automotive manufacturers (Volkswagen, Mercedes-Benz, Stellantis, Ford Motor, General Motors, Toyota and Nissan) on an annual basis, which together account for ~51% of global car production. In addition to this, these automakers are pumping an increasing share of their R&D and capex into the development of electric vehicles.

Figure 4: Automakers' R&D and capex commitments for EVs



Source: Handelsbanken Capital Markets, BloombergNEF.
Note: Calculated as equal annual investment over companies' stated investment periods, divided by average R&D and capex from 2019-21. Plans span five years, except Mercedes-Benz and Toyota's, which are for ten and eight years, respectively. Most targets are 2021-25, except Ford, which is 2022-26, and Mercedes-Benz, which is over ten years.

Ambitious plans for wind and solar; e.g. US tax credits for renewables and storage, corresponding to ~3% of average energy investments in North America on an annual basis

The EU and US now have ambitious plans for wind and solar. Looking at the US' Inflation Reduction Act for example, the announced tax credits for wind, solar, collar and storage of about USD 128bn over the coming ten years correspond on an annual basis to ~3% of the average total energy investments in North America over the past five years (as reported by the IEA). Looking at the EU, recent initiatives raise ambitions even further when it comes to installed capacity by 2030. Reviewing the investments necessary for REPowerEU by 2030 (in addition to previously announced action) communicated by the EU Commission, the investments in renewable energy and energy efficiency amount to about EUR 288bn. A number that corresponds on an annual basis to ~8% of the average energy investments in Europe for the past five years as reported by the IEA. The investment needs are large; energy research and business intelligence company Rystad Energy for example estimates that the EU target of reaching 45% renewable energy supply by 2030 would require around EUR 452bn in additional investments in solar PV and EUR 820bn in wind.

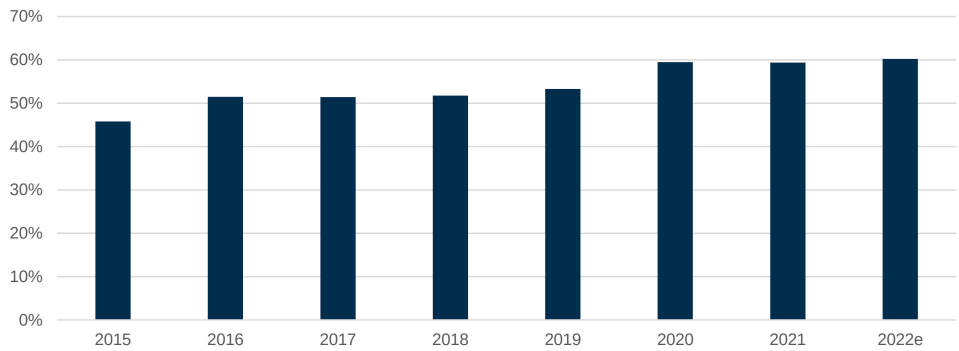
Fossil-free energy investments starting to pick up...

... as well as investments in energy efficiency

On a global scale, in the World Energy Investment report for 2022, the IEA concludes that fossil-free energy investments are starting to pick up and are expected to exceed USD 1.4trn in 2022. This corresponds to almost 75% of the overall growth in total energy investment. Renewables, grids and storage currently account for 80% of total investment in the power sector. According to the IEA, another major growth area is investment in improved efficiency. In 2021, investment in buildings energy efficiency increased by 16% (the largest annual increase by far since the IEA started to track investment flows). This upward trend in energy efficiency spending is expected to be maintained in 2022, supported by government action.

Figure 5: Global annual investments in clean energy (% share of total energy investments)

Fossil-free energy ~60% of annual energy investments



Source: Handelsbanken Capital Markets, The IEA (2022)

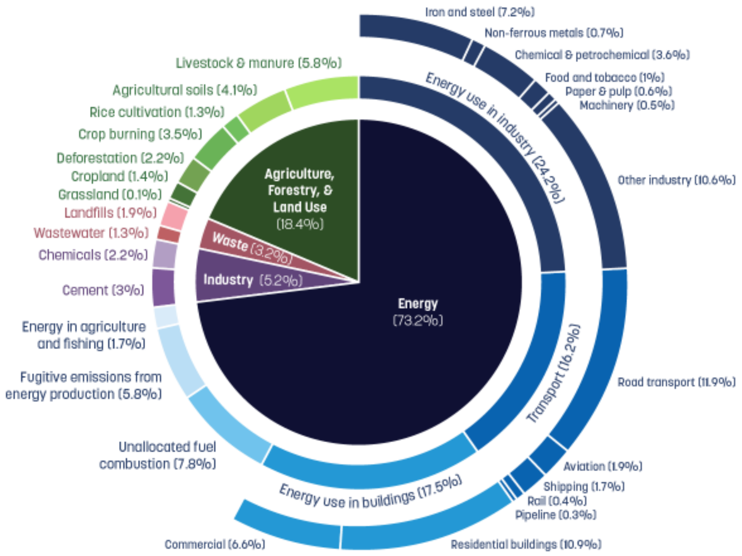
To conclude, while supply-side constraints may pose a challenge in meeting these new ambitious plans and targets, “green” investments will see a strong boost in the coming years. This is particularly the case for renewables, energy efficiency and electrification of transportation, which will benefit from the strong positive demand trend for the actors supplying the solutions required to ‘green’ these sectors.

Where to find the winners

Solutions enabling the expansion of renewable energy, energy-efficiency improvements in buildings and industry, and the electrification of transport appear to be the most promising areas

The question then is where to look for companies that are set to benefit from environmental and climate action: which sectors and which names? When it comes to climate, most sectors are affected to some extent, but energy is generally at the core – reducing the amount of energy used along with finding a cleaner source. Here, General Industry, Transport and Buildings are three key sectors in terms of share of GHG emissions. These sectors also tend to be in focus due to other environmental issues, such as pollution prevention. We also find strong clues in recent policy initiatives and green spending in the EU and US, which we dig deeper into on pages 21-27. Overall, we find solutions enabling the expansion of renewable energy, energy-efficiency improvements in buildings and industry, and the electrification of transport to be the most promising areas. This is not so surprising given that these sectors are key sources of GHG emissions.

Table 6: Global GHG emissions by sector (2016)



Source: The World Bank, Climate Watch, World Resources Institute (2020), adapted from Hannah Ritchie, Our World in Data, 2020

Action across several ESG-related issues, such as air pollution and human rights

We also note that the focus is not solely on GHG emissions; we are seeing increasing policy, corporate and consumer interest in issues such as air pollution and climate adaptation as well human and labour rights. This is also reflected in the EU’s Taxonomy for environmentally sustainable investment, which we will come back to in the next section.

Employing the EU’s ‘green dictionary’

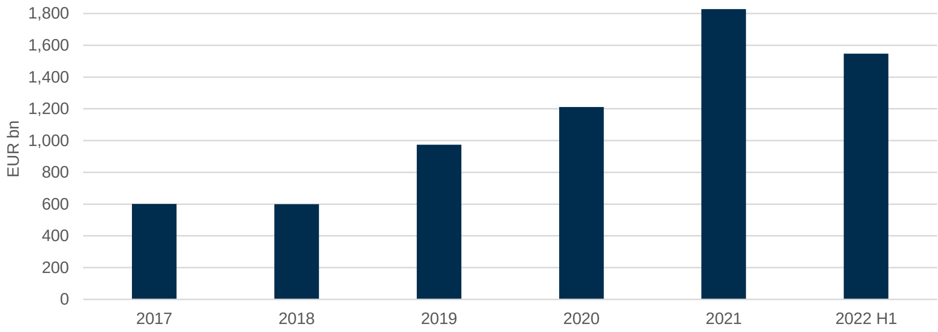
First round of Taxonomy reporting this year

The EU Taxonomy aims to classify what can be considered an environmentally sustainable investment – requiring reporting from both companies and financial market participants offering financial products in the EU. Starting in 2022, companies under the Taxonomy regulation are required to report on the share of their turnover, capital expenditure (capex) and operational expenses (opex) in relation to this ‘green dictionary’ for the first time, in relation to two of the six environmental objectives: climate change mitigation and climate change adaptation. Initially, only the share of activities covered by the framework needs to be disclosed, i.e. companies do not have to comment on their Taxonomy ‘greenness’ (so-called Taxonomy alignment). The latter is to be reported in 2023.

In the longer run, we see high Taxonomy alignment as a value driver for companies

Although the Taxonomy regulation does not impose any requirements on investing in Taxonomy-green activities, we believe that, in light of the growing appetite for green investments, this could be a value driver for companies showing strong potential in relation to the framework.

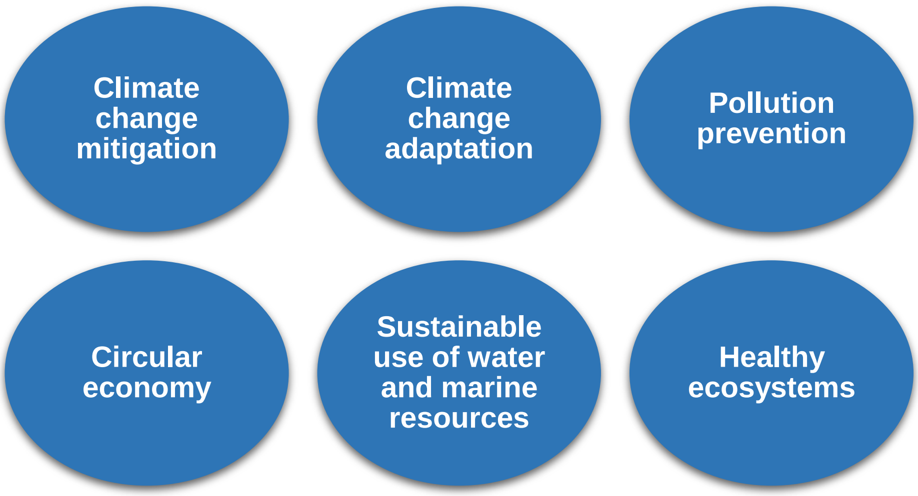
Figure 6: Net assets for European sustainable funds*



Source: Handelsbanken Capital Markets, *as defined by Morningstar

Additionally, the European Commission states that other EU policies may use, or be inspired by elements of the EU Taxonomy. In our view, this suggests that companies that map well in relation to the regulation could have an increased likelihood of being favoured by future initiatives, policies and regulation.

Table 7: The six objectives of the EU Taxonomy



Source: Handelsbanken Capital Markets

We identify Taxonomy “leaders” and “transformers”

Acknowledging that few companies will offer substantial Taxonomy alignment immediately, we identify Taxonomy-linked cases both in terms of ‘Taxonomy leaders’ (relatively high Taxonomy alignment at the outset) and ‘Taxonomy transformers’ (projected growth in Taxonomy-aligned activities).

We believe funds will increasingly favour Taxonomy-linked cases

In our screening process, we employ the EU Taxonomy, as we believe that Taxonomy-linked cases will be in favour as funds seek to maintain their green credentials, in turn supporting higher valuations for companies scoring well in relation to the framework. While our main focus is on the completed parts of the EU Taxonomy, we have also reviewed what is in store for the remaining four objectives (circular economy; pollution prevention and control; protection and restoration of biodiversity and ecosystems; sustainable use and protection of water and marine resources) along with further sectors that are likely to be added.

Sustainability cases

In this report, we shine a light on some of our top picks among our coverage universe for which sustainability issues should drive top-line growth on a 12-month to five-year horizon and have a positive impact on their valuations. Our screening is based on: 1) a three-year OUTPERFORM or MARKET PERFORM recommendation, 2) EU Taxonomy potential, and 3) sustainability-related policy spending (primarily in the EU and the US).

Screening for "green" gold

In this edition of Sustainability Cases, we have screened our Nordic coverage universe for companies that we believe are well positioned to benefit from sustainability-related policy initiatives and regulations (providing top-line tailwinds) in combination with Taxonomy potential (supporting valuation).

We also highlight eight names that we find particularly interesting, namely: Gränges, Nederman, Valmet, NIBE Industrier, Tomra and technical consultancy firms AFRY, Rejlers and Sweco.

Table 8: Sustainability cases screening

	Company	Long term HCM rec (as per 30 Aug)	Taxonomy-aligned revenues HCMe FY2021
1	ABB	MARKET PERFORM	20-36%
2	AFRY	MARKET PERFORM	10-30%
3	Alfa Laval	MARKET PERFORM	5-10%
4	Assa Abloy	OUTPERFORM	12%
5	Atlas Copco	OUTPERFORM	12-17%
6	Catena	OUTPERFORM	58%
7	Electrolux	OUTPERFORM	2-3%
8	Epiroc	OUTPERFORM	1%
9	Gränges	OUTPERFORM	28%
10	Hexagon	MARKET PERFORM	1%
11	Holmen	MARKET PERFORM	8%
12	Husqvarna	OUTPERFORM	0-25%
13	Inwido	MARKET PERFORM	61%
14	Lindab	OUTPERFORM	20-66%
15	Metso Outotec	OUTPERFORM	n.a.
16	NCC	OUTPERFORM	n.a.
17	Nederman	OUTPERFORM	15%
18	NIBE Industrier	MARKET PERFORM	15-20%
19	Re:NewCell	OUTPERFORM	0%
20	Rejlers	OUTPERFORM	10-20%
21	Rockwool	MARKET PERFORM	79%
22	Sandvik	OUTPERFORM	5-15%
23	SCA	MARKET PERFORM	7%
24	Skanska	OUTPERFORM	n.a.
25	SSAB	MARKET PERFORM	18-28%
26	Stora Enso	MARKET PERFORM	5%
27	Sweco	MARKET PERFORM	10-30%
28	Systemair	OUTPERFORM	25-35%
29	Tomra	OUTPERFORM	60%
30	Traton	OUTPERFORM	0%
31	Valmet	OUTPERFORM	28-38%
32	Vestas	MARKET PERFORM	95-100%
33	Volvo	MARKET PERFORM	1%
34	Wartsila	OUTPERFORM	8%

	Company	Policy area(s)
1	ABB	Electrification of transportation, energy efficiency, renewable energy, climate adaptation
2	AFRY	Electrification of transportation, energy efficiency, renewable energy, circular economy, climate adaptation
3	Gränges	Electrification of transportation, energy efficiency in buildings, climate adaptation
4	Inwido	Energy efficiency in buildings
5	NCC	Renewable energy, climate adaptation
6	Nederman	Air quality and pollution prevention
7	NIBE Industrier	Energy efficiency in buildings, renewable energy
8	Rejlers	Electrification of transportation, energy efficiency, renewable energy, circular economy, climate adaptation
9	Rockwool	Energy efficiency in buildings, climate adaptation
10	Skanska	Renewable energy, climate adaptation
11	Sweco	Electrification of transportation, energy efficiency, renewable energy, circular economy, climate adaptation
12	Systemair	Energy efficiency in buildings, air quality
13	Tomra	Circular economy
14	Valmet	Energy efficiency, circular economy, renewable energy
15	Vestas	Renewable energy

	Company
1	AFRY
2	Gränges
3	Nederman
4	NIBE
5	Rejlers
6	Sweco
7	Tomra
8	Valmet

Source: Handelsbanken Capital Markets

Gränges (HOLD/OUTPERFORM)

Policy tailwinds

New global policies pushing the shift to electric vehicles means Gränges lands a spot among our top picks

As new global policies continue to promote the shift to electric vehicles by stimulating demand through tools such as tax credits and also through regulations such as banning petrol or diesel engines in new vehicles, we find Gränges to be an attractive case. Gränges is the market leader in automotive heat exchanger materials with a global market share of 20-25%. This shift increases the demand for rolled aluminium for EV battery cathode foil and casing, as well as heat exchanger materials (an EV currently has up to 80% more heat exchanger material content per vehicle than internal combustion engines). The regulations support demand for existing products as well as creating new opportunities related to battery production. Gränges is pursuing a range of opportunities, including making its first investment in the production of battery cathode foil in Finspång (Sweden) and Shanghai in 2021. The company is also planning to establish a battery foil factory in Newport (US) in 2024. Gränges' first commercial deliveries to battery customers are taking place in 2022, albeit at low volumes for now. The company expects a CAGR of >30% in 2021-25 for battery-related initiatives. Additionally, Gränges is a large supplier of building sheet in Europe, a segment that could be positively impacted by the discussion on including the carbon footprint of materials used in buildings under the EU Energy Performance of Buildings Directive. Gränges' building sheet material has a carbon footprint that is better than the European average, much due to the energy mix in the Nordics and the fact that Gränges uses green energy in production.

EU Taxonomy potential

We estimate that 28% of 2021 sales were Taxonomy aligned

For the full-year 2021, Gränges reported that 28% of its revenue was Taxonomy-eligible. This revenue stems from manufacturing of aluminium through secondary aluminium recycling, with 28.5% of Gränges' total sourced metal inputs coming from aluminium scrap in 2021. The criteria for making a substantial contribution to climate change mitigation within aluminium manufacturing is that either the company complies with specified emission thresholds for primary aluminium or that recycled aluminium is used (no specific emission thresholds). Since 28% of eligible revenue comes from the manufacture of aluminium through secondary aluminium recycling, we assume the full 28% also to be compliant with the criteria for substantial contribution. We believe this number will grow in the near term, as the company targets at least 30% of metal inputs to be aluminium scrap by 2025 (a target the company currently exceeds). For 2050, the company targets a recycling volume of ~500,000 tonnes, corresponding to approximately 50% sourced recycled aluminium. This suggests that Gränges' Taxonomy alignment will likely continue to grow beyond 30% in the future.

Table 9: Gränges EU Taxonomy overview

Gränges	Turnover	Capex	Opex
Reported Taxonomy eligibility for FY2021	28%	27%	28%
Relevant categories identified by the company (turnover)	3.8 Manufacture of aluminium		
Environmental objective(s)	Climate change mitigation		
HCM estimated Taxonomy alignment for FY2021	28%		
DNSH (HCM assessment)	No deviance identified, but limited information found		
Minimum safeguards (HCM assessment)	Compliant		

Source: Handelsbanken Capital Markets, company reporting

Nederman (BUY/OUTPERFORM)

Policy tailwinds

Demand for Nederman's industrial air filtration technology should increase thanks to continued tightening of emissions regulations

Nederman is an environmental technology company specialising in industrial air filtration. Legislation on industrial air emissions is a core market driver for Nederman, and we see policy tailwinds from legislation relating to environmental impact as well as more stringent workplace health and safety policies. For example, the EU Commission proposed revising the Industrial Emissions Directive in 2022 as part of its Green Deal ambition, requiring Member States to employ tighter pollutant emission values and extend the coverage to include additional livestock farming and industrial activities. Currently 85% of countries have national standards for industrial emissions, yet few of these standards are as stringent as the World Health Organisation's (WHO) air quality guidelines, according to a review by the UN Environment Programme in 2021. In other words, there is still room for improvement, especially as the WHO halved its guideline limits on air pollution in the autumn of 2021, suggesting continued growing demand for Nederman's solutions.

EU Taxonomy potential

Nederman reported that 15% of 2021 sales were likely to be Taxonomy aligned

For the full-year 2021, Nederman reported that 15% of net sales to be Taxonomy-eligible. This 15% relates to activities contributing to both climate change mitigation and climate change adaptation; according to the company, it is also in line with the set criteria (i.e. Taxonomy aligned). Nederman reported that the solutions included as eligible are those with the primary purpose of helping customers comply with requirements on GHG emissions, and/or solutions that help customers save energy – both stemming from the company's Monitoring & Control Technology division. Nederman does currently not report the exact Taxonomy activity categories under which it is classified as eligible. However, we believe that "Manufacture of energy efficiency equipment for buildings" and/or "Manufacture of other low carbon technologies" are probably relevant. While 15% potential Taxonomy alignment is relatively good (average estimated alignment for the companies under our coverage is 7-9% of 2021 sales), Nederman's strongest potential from a Taxonomy perspective is related to the completion of activities considered to contribute to pollution prevention, as this is what the company's solutions are aimed at. We have not identified any activity category in the March draft of the EU Platform on Sustainable Finance (which is to be completed with further recommendations on additional activities this autumn) under which Nederman clearly looks to be eligible. However, we see strong potential that the company's solutions should map as an activity enabling pollution prevention.

Table 10: Nederman EU Taxonomy overview

Nederman	Turnover	Capex	Opex
Reported Taxonomy eligibility for FY2021	15%	31%	37%
Relevant categories identified by the company (turnover)	Activity categories not specified		
Environmental objective(s)	Climate change mitigation & climate change adaptation		
HCM estimated Taxonomy alignment for FY2021	15%		
DNSH (HCM assessment)	No deviance identified, but limited information found		
Minimum safeguards (HCM assessment)	Compliant, but limitied information found on tax governance		

Source: Handelsbanken Capital Markets, company reporting

NIBE (HOLD/MARKET PERFORM)

Policy tailwinds

Heat pumps are in high demand, making NIBE well placed to benefit

Heat pumps are in high demand and have taken market share from other types of heating systems in several markets across Europe in recent years. In 2021, heat pump sales grew by an all-time-high of 34% in Europe (source: European Heat Pump Association). Looking forward, recent policy initiatives, both in the EU and the US, indicate that this growth will continue. The EU is aiming for 50 million heat pumps to be installed by 2030, corresponding to an annual growth rate of 16%. In its REPowerEU plan, the EU Commission proposes a range of measures to further accelerate and incentivise the rollout of heat pumps, such as tougher energy efficiency requirements for buildings. Additionally, the EU Eco directive is fuelling demand by requiring old products that fail to comply with the requirements to be replaced. Heat pumps are also in the spotlight in the US' green spending, with the Inflation Reduction Act containing a 30% tax credit of up to USD 2,000 for consumers buying an energy-efficient heat pump. For low- and moderate-income households there is also a USD 4.28bn high-efficiency electric home rebate programme, which returns a rebate of up to USD 8,000 for the installation of heat pumps that can both heat and cool a home. This could cover the full cost of a heat pump installation for a low-income household. For NIBE's Climate solutions business area, accounting for 64% of sales and 72% of the operating profit, heat pumps make up a majority, which makes the company well placed to benefit from policy tailwinds.

EU Taxonomy potential

We estimate that 15-20% of 2021 sales were Taxonomy aligned

For the full-year 2021, NIBE reported 49% of its revenue as being Taxonomy-eligible. We assume the majority of this to stem from NIBE's Climate Solutions segment, and more specifically heat pumps (along with products such as AC, water heaters and washing machines). For 2021, we estimate NIBE's Taxonomy alignment to be about 15-20% of revenue. For heat pumps, the criteria that we find to be challenging, at least for now, is that the refrigerant cannot exceed global warming potential (GWP) of 675 in order to make a substantial contribution to climate change mitigation. Today, NIBE has products that comply with this criterion already, although they do not currently represent the majority of its sales. That said, we believe that the share of heat pumps compliant with this criteria is set to significantly increase in the coming years, as NIBE has been working to convert the entire product range to a refrigerant with lower GWP ever since the EU's F-gas regulation was established in 2015 (i.e. long before the Taxonomy was developed). The company targets single-digit GWP for its products and, in Q2 2022, introduced a heat pump featuring a refrigerant with a GWP of three (propane). In the near term, we find that material and component shortages are likely to delay the company's transition to heat pumps using refrigerants with a lower GWP, but we still consider NIBE to be a 'Taxonomy transformer', with potential to grow its share of Taxonomy green revenue to close the gap to the 49% that is currently eligible.

Table 11: NIBE EU Taxonomy overview

NIBE	Turnover	Capex	Opex
Reported Taxonomy eligibility for FY2021	49%	39%	41%
Relevant categories identified by the company (turnover)	3.4 Manufacture of batteries; 3.5 Manufacture of energy efficiency equipment for buildings;3.6 Manufacture of other low carbon technologies		
Environmental objective(s)	Climate change mitigation		
HCM estimated Taxonomy alignment for FY2021	15-20%		
DNSH (HCM assessment)	No deviance identified, but limited information found		
Minimum safeguards (HCM assessment)	Compliant, but limitied information found on fair competition identified		

Source: Handelsbanken Capital Markets, company reporting

Technical consultancy firms:

AFRY (HOLD/MARKET PERFORM), Rejlers (BUY/OUTPERFORM) and Sweco (HOLD/MARKET PERFORM)

Policy tailwinds

A spider in the web when in terms of facilitating more sustainable operations across a range of sectors

AFRY, Rejlers and Sweco should benefit from the growing need for expert advisory services

Given the innovation and transformation needed to achieve the Paris Agreement's targets and other environmental ambitions, we argue that there is a major need for expert advisory services on how to take on these sustainable development endeavours. This places the technical consultancy sector as a spider in the web when it comes to facilitating more sustainable operations across a range of different sectors. We argue that the demand for technical consultancy services will be boosted by mounting regulatory pressure and new and updated EU legislation stemming from the EU's Green Deal, such as the revision of the renewable energy directive and tightening (binding) targets for reduced energy consumption. Policy actions that result in large infrastructure projects such as Denmark's planned energy island in the North Sea and the HYBRIT project for decarbonising steel production combined with increasing interest in how to achieve sustainability targets and be compliant with legislation. We believe that AFRY, Rejlers and Sweco are well placed to benefit from increasingly stringent environmental requirements.

EU Taxonomy potential

We estimate 10-30% Taxonomy alignment (2021 sales) for Sweco and AFRY, and 10-20% for Rejlers…

… although we believe the Taxonomy potential for Rejlers to be in line with that of AFRY and Sweco

The technical consultancy firms under our coverage report a wide range of eligible revenue, with Rejlers coming in at 20%, Sweco at 35% and AFRY at 48% for 2021. Reviewing the potential alignment of these companies presents an extra challenge in our view, given that their businesses comprise a large number of projects within various areas, corresponding to different categories in the Taxonomy. That said, in the light of reported eligible revenue, we estimate taxonomy alignment (full-year 2021) to be in the range of 10-30% for Sweco and AFRY and 10-20% for Rejlers, although we believe that the Taxonomy potential for Rejlers is likely similar to that of Sweco and AFRY, with the deviation in reported eligibility largely down to varying interpretations of the Taxonomy framework. In addition, we consider the sector to be particularly interesting in relation to the Taxonomy framework as the consultants can enhance the green profiles of their own operations as well as their clients, thus driving demand for their services from clients that are also covered by the Taxonomy, such as buildings, road and rail infrastructure, forestry, and transport. Helping clients become more Taxonomy-aligned can also boost the consultancies own Taxonomy alignment.

Table 12: AFRY EU Taxonomy overview

AFRY	Turnover	Capex	Opex
Reported Taxonomy eligibility for FY2021	48%	2%	0%
Relevant categories identified by the company (turnover)	3.3 Manufacture of low carbon technologies for transport; 4.5 Electricity generation from hydropower; 4.9 Transmission and distribution of electricity; 5.2 Renewal of water collection, treatment and supply systems; 5.3 Construction, extension and operation of waste water collection and treatment; 5.4 Renewal of waste water collection and treatment; 6.13 Infrastructure for personal mobility, cycle logistics; 6.14 Infrastructure for rail transport; 6.15 Infrastructure enabling road transport and public transport; 7.1 Construction of new buildings; 7.2 Renovation of existing buildings		
Environmental objective(s)	Climate change mitigation & climate change adaptation		
HCM estimated Taxonomy alignment for FY2021	10-30%		
DNSH (HCM assessment)	n/a		
Minimum safeguards (HCM assessment)	Compliant		

Source: Handelsbanken Capital Markets, company reporting

Table 13: Rejlers EU Taxonomy overview

Rejlers	Turnover	Capex	Opex
Reported Taxonomy eligibility for FY2021	20%	0%	0%
Relevant categories identified by the company (turnover)	6.14 Infrastructure for rail transport; 7.2 Renovation of existing buildings; 7.3 Installation, maintenance and repair of energy efficiency equipment; 7.4 Installation, maintenance and repair of charging stations for electric vehicles in buildings (and parking spaces attached to buildings); 7.5 Installation, maintenance and repair of instruments and devices for measuring, regulation and controlling energy performance of buildings; 7.6 Installation, maintenance and repair of renewable energy technologies; 9.1 Engineering activities and related technical consultancy dedicated to adaptation to climate change; 9.3 Professional services related to energy performance of buildings		
Environmental objective(s)	Climate change mitigation & climate change adaptation		
HCM estimated Taxonomy alignment for FY2021	10-20%		
DNSH (HCM assessment)	n/a		
Minimum safeguards (HCM assessment)	Compliant, but limitied information found on tax governance		

Source: Handelsbanken Capital Markets

Table 14: Sweco EU Taxonomy overview

Sweco	Turnover	Capex	Opex
Reported Taxonomy eligibility for FY2021	35%	42%	34%
Relevant categories identified by the company (turnover)	6.14 Infrastructure for rail transport; 6.15 Infrastructure enabling low-carbon road transport and public transport; 6.16 Infrastructure enabling low carbon water transport; 7.3 Installation, maintenance and repair of energy efficiency equipment; 7.4 Installation, maintenance and repair of charging stations for electric vehicles in buildings (and parking spaces attached to buildings); 7.5 Installation, maintenance and repair of instruments and devices for measuring, regulation and controlling energy performance of buildings; 7.6 Installation, maintenance and repair of renewable energy technologies; 8.1 Data processing, hosting and related activities; 8.2 Data-driven solutions for GHG emissions reductions; 9.1 Close to market research, development and innovation; 9.2 Research, development and innovation for direct air capture of CO2; 9.3 Professional services related to energy performance of buildings.		
Environmental objective(s)	Climate change mitigation & climate change adaptation		
HCM estimated Taxonomy alignment for FY2021	10-30%		
DNSH (HCM assessment)	n/a		
Minimum safeguards (HCM assessment)	Compliant		

Source: Handelsbanken Capital Markets, company reporting

Tomra (HOLD/OUTPERFORM)

Policy tailwinds

More stringent legislation on recycling and waste benefits Tomra

It is difficult not to mention Tomra when discussing companies that benefit from strong policy tailwinds. The shift to a more circular economy with higher recycling rates and less waste is right up the company's alley. Tomra largely operates in markets driven by regulatory and legislative reform with a growing need for recycled materials. The shift is supported by policy actions such as the EU's Single-Use Plastics Directive, which includes targets on recycled content and collection targets for plastic bottles and mentions deposit schemes as a means to achieving these targets. Tomra is the market leader in reverse vending solutions, with 43% of 2021 sales stemming from reverse vending. Reducing waste is a hot topic in general, with the EU Commission, for example, stating that it will propose legally binding targets to reduce food waste across the EU by the end of 2023. This renders Tomra's Food segment (30% of 2021 sales and 19% of EBITA) even more interesting given that its sensor-based sorting equipment and post-harvest solutions help to reduce food waste at the production stage in the food industry.

EU Taxonomy potential

We estimate that 60% of 2021 sales were Taxonomy aligned

For the full-year 2021, Tomra reported that 60% of sales were Taxonomy-eligible, a share that also looks to be Taxonomy aligned according to the company's preliminary assessment of the criteria. The company's operations are relevant in relation to the Taxonomy activities "Collection and transport of non-hazardous waste in source segregated fractions" and "Material recovery form non-hazardous waste". In the first category, there are no specific thresholds for making a substantial contribution to climate change mitigation, but only that the activity collects or transports waste intended for reuse or recycling operations. In our view, it is likely that Tomra's operations are compliant. Similarly, the criteria regarding what it means to do no significant harm are limited, increasing the likelihood that Tomra's operations comply. For the second category, the criteria is not extensive but we have not identified data to confirm compliance with the specified threshold of at least 50% (in terms of weight) of the waste being suitable for the substitution of virgin materials in production process. This is currently not reported by the company as it is not Tomra that performs the actual recycling. However, achieving a yield of 50% in recycling is, according to the company, the norm for the technology it applies. Hence, we believe the company is likely to be compliant, suggesting 60% of 2021 sales may be Taxonomy-aligned. Additionally, we find Tomra to be relevant in relation to the circular economy Taxonomy objective, indicating eligibility and potential alignment could grow further as this part of the framework is completed in the coming year.

Table 15: Tomra EU Taxonomy overview

Tomra	Turnover	Capex	Opex
Reported Taxonomy eligibility for FY2021	60%	n/a	n/a
Relevant categories identified by the company (turnover)	5.5 Collection and transport of non-hazardous waste in source segregated fractions; 5.9 Material recovery from non-hazardous waste		
Environmental objective(s)	Climate change mitigation		
HCM estimated Taxonomy alignment for FY2021	60%		
DNSH (HCM assessment)	No deviance identified, but limited information found		
Minimum safeguards (HCM assessment)	Compliant		

Source: Handelsbanken Capital Markets, company reporting

Valmet (BUY/OUTPERFORM)

Policy tailwinds

Valmet provides solutions that improve resource efficiency and also enable the circular economy

Through its offering within process technology, services and automation to the pulp, paper and energy industries, Valmet enables GHG emission reductions by increasing resource efficiency and eliminating the need for fossil energy in the production process. The company's solutions are also enablers of a more circular economy, providing the main equipment for the textile recycling company Renewcell as one example. We see several policy tailwinds, such as tightening emissions legislation regarding GHG emission, the EU's Circular Economy Action Plan (CEAP), increased targets for energy efficiency and renewable energy in the EU (and the US), alongside the EU Strategy for sustainable textiles favouring Valmet.

EU Taxonomy potential

We estimate that around 28-38% of Valmet's 2021 sales could be Taxonomy aligned

For the full-year 2021, Valmet reports 51% of its net sales are Taxonomy-eligible, with the major share (42%) relating to the category "Manufacture of other low carbon technologies". This indicates that if operations are shown to be aligned with the specified criteria, about half of sales could be considered to be "Taxonomy green" – a relatively high share compared to most companies in our coverage universe, although the exact figure is still uncertain and subject to interpretation in our view. Reviewing company reporting and the process of deriving Taxonomy-eligible revenue, we estimate 28-38% of Valmet's net sales are aligned for 2021. The biggest hurdle for the company in fulfilling alignment criteria appears to be getting life-cycle assessments in place (a criteria for alignment for "Manufacture of other low carbon technologies"), which has not been custom at the company previously. We also think that Valmet could be a winner when it comes to the Taxonomy's remaining four objectives (yet to be completed), especially in relation to the circular economy objective and sustainable water resources, given its offerings in this area. However, we have not identified any activity category in the March draft of the EU Platform on Sustainable Finance under which Valmet looks to be eligible. More activities are to be added this autumn, with the final draft from the EU Commission yet to be published.

Table 16: Valmet EU Taxonomy overview

Valmet	Turnover	Capex	Opex
Reported Taxonomy eligibility for FY2021	51%	30%	29%
Relevant categories identified by the company (turnover)	3.1 Manufacture of renewable energy technologies; 3.6 Manufacture of other low carbon technologies; 8.2 Data-driven solutions for GHG emissions reductions		
Environmental objective(s)	Climate change mitigation		
HCM estimated Taxonomy alignment for FY2021	28-38%		
DNSH (HCM assessment)	No deviance identified, but limited information found		
Minimum safeguards (HCM assessment)	Compliant, but limitied information found on tax governance		

Source: Handelsbanken Capital Markets, company reporting

Table 17: Valuation

	HCM Rec (as of Aug 29)	CCY	3y TP	Mcap (EURm)	EV/S 2022e	EV/S 2023e	EV/S 2024e	EV/EBIT 2022e	EV/EBIT 2023e	EV/EBIT 2024e	P/E 2022e	P/E 2023e	P/E 2024e
Valmet	BUY/OUTPERFORM	EUR	45	4,759	0.9	0.8	0.7	10.1	6.9	5.9	10.6	9.0	8.8
Nederman	BUY/OUTPERFORM	SEK	265	510	1.4	1.2	1.0	14.1	11.5	8.9	16.1	13.8	11.2
Gränges	HOLD/OUTPERFORM	SEK	150	839	0.5	0.4	0.4	8.9	7.9	6.7	8.4	7.9	6.8
NIBE	HOLD/MARKET PERFORM	SEK	137	18,347	5.3	4.9	4.5	39.2	37.6	34.5	52.1	50.9	46.8
Tomra	HOLD/OUTPERFORM	NOK	350	6,818	5.7	5.0	4.4	45.5	33.7	27.9	63.7	47.1	39.1
Afry	HOLD/MARKET PERFORM	SEK	190	1,505	0.9	0.8	0.7	11.4	9.7	8.3	12.5	10.9	10.1
Rejlers	BUY/OUTPERFORM	SEK	190	258	0.9	0.8	0.7	11.5	9.7	8.6	14.4	12.5	11.3
Sweco	HOLD/MARKET PERFORM	SEK	135	3,362	1.6	1.5	1.5	17.5	16.4	14.9	22.3	20.7	19.0

Source: Handelsbanken Capital Markets

Past names that did not make the cut

Hexagon and Wärtsilä proved less attractive than we had hoped as their part of the value chain is not (yet) specifically included in the Taxonomy

In our Sustainability Cases report for 2021, we highlighted ABB, Caverion, Hexagon, Inwido, Sweco and Wärtsilä. We still consider all six to be well positioned in relation to 'green' recovery spending, as stipulated in our 2021 report. However, reviewing the Taxonomy reporting, we find that Hexagon and Wärtsilä proved less attractive than we initially anticipated. Both companies report Taxonomy eligibility in the single digits, explained by their part of the value chain not being explicitly included in the framework, despite their activities being relevant across several categories in the Taxonomy. Hence, although we find them to be companies that could benefit from drives such as the transition to fossil-free energy, they no longer fulfil the Taxonomy parameters in our screening.

Caverion no longer covered

Caverion is no longer part of our coverage universe and so is no longer considered in our Sustainability Cases screening.

Appendix

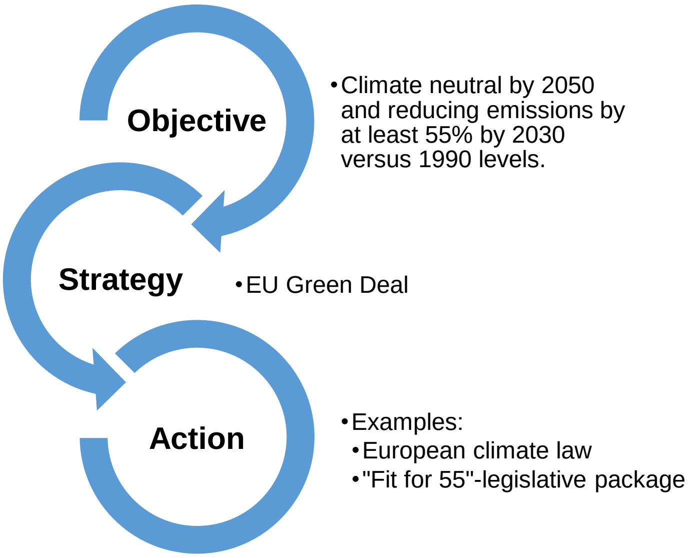
This appendix provides further details on climate action in the EU (pages 21-25) and the US (pages 25-27), and delves into the concepts of "greenflation" and "climateflation" (pages 28-29).

The European Green Deal (2019) sets out the direction for policy action in the EU

Climate action in the EU

By 2050, Europe aims to become the world's first climate-neutral continent, with the sub-target of cutting emissions by at least 55% by 2030 versus 1990 levels. The European Green Deal, launched in 2019, outlines the Union's overarching strategy on how to achieve this goal. Details of more concrete actions are supplied in the form of policy initiatives that are continuously formed and adopted. In the summer of 2021, the Commission adopted an entire package of legislative proposals (often referred to as "Fit for 55"), covering a wide range of policy areas including climate, energy, transport and taxation. It sets out in more concrete terms the ways in which the Commission intends to reach the climate targets under the European Green Deal.

Table 18: Climate action in the EU



Source: Handelsbanken Capital Markets, EU Commission

A stream of targeted directives and policy initiatives spur demand for more environmentally friendly solutions

Besides the "Fit for 55" legislative package, the Commission has produced a steady stream of directives and strategies zooming in on certain parts of the Green Deal, such as energy efficiency in buildings, reducing biodiversity loss, air pollution and financing. These directives have created a wave of policy initiatives, spurring demand for more environmentally friendly solutions across the economy. One such example is the introduction of a 100% CO_2 emissions reduction target by 2035 for new cars and vans, meaning that no new cars powered by petrol or diesel will be allowed to be sold in the bloc from 2035. This proposal is likely to be implemented, as it has been supported by both the EU Council and the EU Parliament.

Table 19: Overview of policy initiatives stemming from the EU Green Deal

Climate	Energy	Environment	Transport	Industry	Agriculture and food	Finance
• European climate law	• Renovation wave	• Biodiversity strategy	• Sustainable and smart mobility strategy	• Industrial strategy	• Farm to fork strategy	• Sustainable finance strategy
• European climate pact	• Hydrogen Strategy	• EU forest strategy	• Funding for public recharging and refuelling points	• New circular economy action plan	• Carbon farming	• EU Taxonomy
• New EU nationally determined contributions (NDC): -55% emissions by 2030	• Methane Strategy	• Sustainable product policy initiative	• Increased capacity for railways and inland waterways	• Carbon border adjustment mechanism	• Biological pesticides regulation	• Revised energy taxation directive
• Climate change adaptation strategy	• Offshore Renewable Energy Strategy	• Zero pollution action plan	• Stricter air pollution standards for combustion engines	• Zero carbon steel-making	• Organic farming action plan	• Green deal investment plan
• Revision of the EU emission trading system	• Review of the TEN-E Regulation	• Sustainable batteries regulation	• Alternative fuels infrastructure and TEN-T revisions	• EU strategy for sustainable textiles	• EU soil strategy	• Just transition mechanism
• Revision of the LULUCF	• EU Solar Energy Strategy	• Blue economy strategy		• Right to repair		
	• Revision of the renewable energy directive	• Sustainable chemicals strategy				
	• Revision of the energy efficiency directive	• Revision of the ambient air quality directives				
	• Revision of the energy performance of buildings directive	• Regulation on nature restoration				

Source: Handelsbanken Capital Markets, EU Commission, EU Parliament

On average, the EU legislative process takes 18-30 months (EU Parliament, 2022; Swedish Institute for European Policy Studies, 2021). The legislation proposals put forward in the “Fit for 55” package are currently still under development. In the coming months, the European Parliament and Council will enter into negotiations. Once negotiations are finalised and approval comes at the EU level, we find that it takes somewhere between six- to 12 months before legislation is adopted into national law in member states. The various initiatives have different proposed implementation timelines, but in general they start to take hold in 2024 at the earliest.

Table 20: “Fit for 55” legislative package – content and proposed timeline

Initiative	Content	Proposed implementation timeline
Revision of the EU emissions trading system (EU ETS)	Proposal to lower the overall emissions cap per economic sector, phase out free emission allowances for aviation, and include shipping for the first time along with road transports and buildings	**2023-2025:** Extend system to cover the maritime sector **2024:** Initiate process to establish an ETS for buildings and road transport **2027-2032:** Phase out free allowances in sectors covered by the CBAM **2021-2030:** Increase the linear emission reduction factor from 2.2% to 4.2% per year
Revision of the regulation on land use, land use change and forestry (LULUCF)	Setting an overall EU target for carbon removals by natural sinks and setting national targets	**2026:** New reporting system starting **2031:** Expand the scope to cover the whole land sector (including non-CO2 emissions from the agriculture sector)
Revision of the effort sharing regulation (ESR)	Proposal to assigning stronger reduction targets for each Member State in building, road, domestic maritime transport, agriculture, waste and small industry sectors	**Until 2030:** Annual emissions allocations (AEAs) to be progressively reduced **2025:** The AEAs for the 2026-2030 period to be adjusted
Amendment to the renewable energy directive (RED)	New 2030 target of 40% (up from 32%) energy use from renewables by 2030 and strengthening bioenergy sustainability criteria. The REPowerEU plan increases this target to 45%.	n/a
Amendment to the energy efficiency directive (EED)	Increase the binding EU energy efficiency target to 9% reduction by 2030 compared to 2020 reference scenario. The REPowerEU plan raises ambitions further from 9% to 13%.	n/a
Revision of the alternative fuels infrastructure directive (AFID)	Requiring aircraft and ships have access to clean energy supply in major ports and airports.	n/a
Amendment of the regulation setting CO2 emission standards for cars and vans	Requiring average emissions of new cars to come down by 55% from 2021 to 2030 (vs current 37.5%) and net-zero by 2035. More stringent requirements also for vans.	**2030:** 55% reduction target for cars, 50% for vans **2035:** All new cars and vans to have zero ghg emissions
Revision of the energy taxation directive	Proposal to align taxation of energy products with climate policies and promote clean technologies	n/a
EU forest strategy	Proposals to improve quality, quantity and resilience of EU forests, ensure sustainable use of biomass, and plant 3bn trees by 2030	n/a
Carbon border adjustment mechanism (CBAM)	Placing a carbon price on imports and prevent EU companies being undercut by energy-intensive competitors	**2023-2025:** A simplified system would be in force **2026:** EU importers would start paying CBAM certificates that correspond to the emissions embedded in their imports.
Social climate fund	Proposal to help citizens finance investment in energy efficiency, clean mobility and renewable energy	**2025-2032:** EUR 72.2bn (in current prices) to be allocated to the Fund
ReFuelEU Aviation – on sustainable aviation fuels	Obliging fuel suppliers to blend more sustainable aviation fuels in jet fuel, including e-fuels	**2025:** The minimum share of sustainable aviation fuels (SAF) supplied should be 2% **2030:** The minimum share of SAF would be 5% increasing to 63% in 2050
FuelEU Maritime – on greening Europe’s maritime space	Stimulate uptake of sustainable maritime fuels and zero-emission technologies	**2025:** Increasingly stringent limits on carbon intensity by vessels (should oblige them to use alternative fuels) **2030:** Container ships and passenger ships at EU ports will have to connect to onshore power supply and use it for all energy needs while at the port

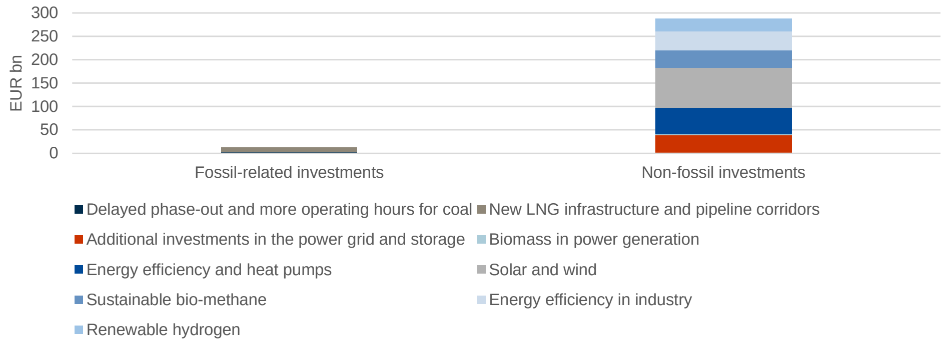
Source: Handelsbanken Capital Markets, EU Parliament, EU Commission

Like all EU actions and policies, the initiative to reduce energy dependence on Russia must contribute to European Green Deal objectives

In the European Green Deal, it is stated that all EU actions and policies will have to contribute to the European Green Deal objectives, meaning that it lies at the core of most major initiatives launched by the EU. A recent example is the REPowerEU Plan, which is the EU's plan to rapidly reduce its dependence on Russian fossil fuels in response to Russia's invasion of Ukraine. The Commission estimates that delivering on the plan would require an additional investment of about EUR 210bn in 2022-27 (EUR ~300bn by 2030), although it would also save almost EUR 100bn per year in reduced fossil fuel imports.

While it is difficult to argue that all aspects of this plan could be labelled as "green", we find it is definitely geared towards green investments (measures outlined in the table below).

Figure 7: REPowerEU investments (in addition to the Fit-for-55 package)



Source: Handelsbanken Capital Markets, EU Commission

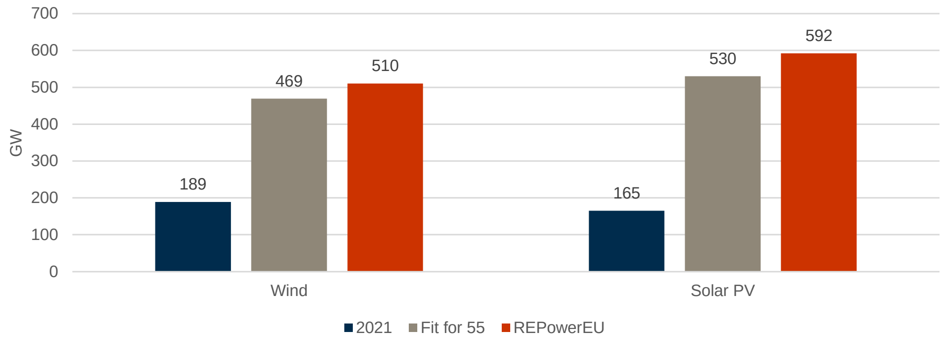
Table 21: REPowerEU (Green Deal-related measures in bold)

Short-term measures	Medium term measures to be completed before 2027
• Common purchases of gas, LNG and hydrogen via the EU Energy Platform for all Member States who want to participate as well as Ukraine, Moldova, Georgia and the Western Balkans	• New national REPowerEU Plans under the modified Recovery and Resilience Fund – to support investment and reforms worth €300 billion
• New energy partnerships with reliable suppliers, **including future cooperation on renewables and low carbon gases**	**• Boosting industrial decarbonisation with EUR 3bn of frontloaded projects under the Innovation Fund**
• Rapid roll out of solar and wind energy projects combined with renewable hydrogen deployment to save around 50 bcm of gas imports	**• New legislation and recommendations for faster permitting of renewables especially in dedicated 'go–to areas' with low environmental risk**
• Increase the production of biomethane to save 17 bcm of gas imports	**• Investments in an integrated and adapted gas and electricity infrastructure network**
• Approval of first EU-wide hydrogen projects by the summer	**• Increased ambition on energy savings by raising the EU-wide target on efficiency for 2030 from 9% to 13%**
• An EU Save Energy Communication with recommendations for how citizens and businesses can save around 13 bcm of gas imports	**• Increase the European renewables target for 2030 from 40% to 45%**
• Fill gas storage to 80% of capacity by 1 November 2022	• New EU proposals to ensure industry has access to critical raw materials
• EU-coordination demand reduction plans in case of gas supply disruption	**• Regulatory measures to increase energy efficiency in the transport sector**
	• A hydrogen accelerator to build 17.5 GW by 2025 of electrolysers to fuel EU industry with homegrown production of 10 million tonnes renewable hydrogen
	• A modern regulatory framework for hydrogen

Source: Handelsbanken Capital Markets, EU Commission

While several of these areas were already targeted in the EU's "Fit for 55" package, such as increasing the ambition within renewables and energy efficiency, Russia's war in Ukraine appears to be both an accelerator and an amplifier – raising targets even further and speeding up implementation. Putting forward a proposal to speed up permit-granting procedures for renewable energy projects, as for example, which would mitigate a significant barrier for the deployment of renewable energy.

Figure 8: EU raising targets for renewable energy capacity

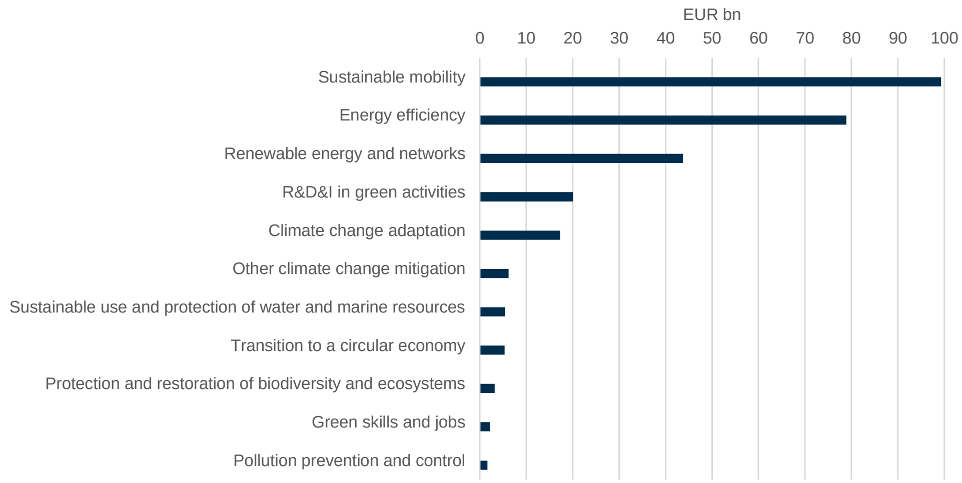


Source: Handelsbanken Capital Markets, EU Commission

The RRF – the EU's initiative for recovery from the pandemic also entails green spending

Another example is the Recovery and Resilience Facility (RRF), which is the EU's response to mitigate the economic and social impact of the coronavirus pandemic. The RRF, which includes EUR 338bn in grants and EUR 386bn in loans at current prices to be distributed in 2021-27, has three 'flagship areas' when it comes to green spending; (1) expansion of electric vehicle (EV) charging infrastructure, (2) energy-efficiency improvements in buildings, and (3) expansion of renewable energy and investments in the power grid. Each member state's national plan for spending the funds must devote 37% of its total allocation to measures that support the green transition in order for the plan to be approved.

Figure 9: EU Recovery and Resilience Facility: Breakdown of expenditure on climate objectives per policy area

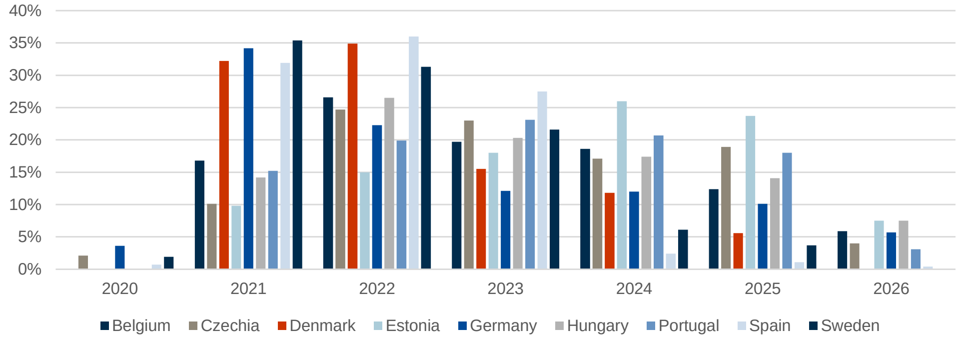


Source: Handelsbanken Capital Markets, EU Commission

The "green" element of the RRF is only just coming into force

In general, when it comes to green spending in the EU, we find it difficult to get a good overview of when and how funds will be allocated. This can partly be attributed to the fact that it is a coalition of 27 nations, where the means to meet the targeted end tend to differ from country to country. Each national project has to be tracked in order to know how much is spent on different measures and when, with few countries providing an annual breakdown of planned spending in their RRF plans (only seven countries in total (Bruegel, 2022)).

Figure 10: Time profile of planned recovery spending (% of total)



Source: Handelsbanken Capital Markets, Bruegel (June, 2022). Note: Seven countries presented the annual breakdown of planned spending so far in their recovery and resilience plans, while Spain provided the annual breakdown in its 2021 Stability Programme (Table 4.3.2 n page 79). For Portugal, both RRF grants and loans are considered.

Looking at how funds have been distributed to member states so far from the RRF, we find that ~16% of the total EUR 724bn has been disbursed to date (as of August 29, 2022). Where only 4% of the milestones and targets related to environmental or "green" objectives have been fulfilled so far. In other words, we are still in the initial phase, and therefore it is too early to say if it is successful or not. For now, we see that the national plans are at least starting to be put into action.

Limited signs of progress yet in Germany and the Nordic countries, but some examples from France, Italy and Spain

Looking in more detail at Denmark, Sweden and Finland, 56% of the total EUR 6.93bn allocated to these countries is earmarked for the green transition. However, so far, there is no information that the outlined plans have been fulfilled, which we interpret to mean that initiatives are still awaiting implementation. The same goes for Germany, which has earmarked ~47% of its EUR 25.6bn for the green transitions. There are some examples of implementation, for example, from France, Italy and Spain, where investments and reforms in favour of the green transition have already been implemented.

In France, investments from the RRF have been used to provide energy renovation grants to 420,000 private and social housing dwellings along with over EUR 8bn for an automotive support plan favouring electric and hybrid vehicles. In Italy, a national air pollution control programme has come into force as well as tax deductions equal to 110% of expenses for energy and anti-seismic renovations of residential buildings. Spain has initiated a plan to boost electric vehicle infrastructure along with a national strategy on the circular economy (EEEC).

For REPowerEU, we find that communication regarding the additional funds needed to achieve these targets has so far been unclear. Where the Commission has stated that the additional investments needed "must be met by the private and the public sector". But the Commission has proposed that EUR 20bn in grants to come from the sales of EU Emission Trading System allowances currently held in the Market Stability reserve. Beyond that, we find the plan partly relies on RRF leftovers for funding (EUR 225 as per August 18, 2022).

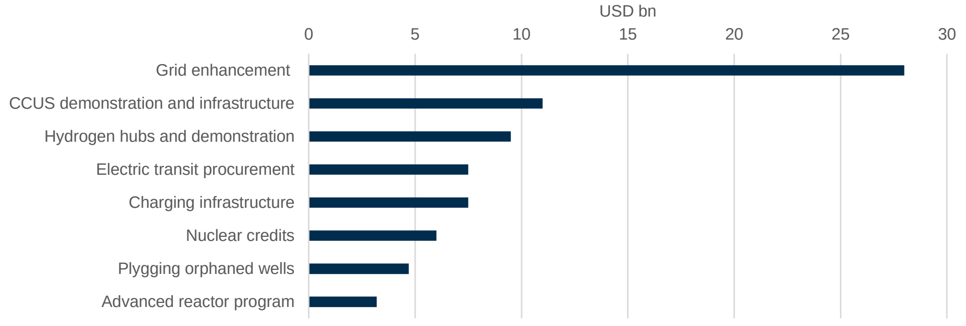
Tailwinds for companies enabling Green Deal objectives

Overall, we expect this wave of climate and environmental policies and regulations to provide tailwinds for companies active in EU markets that enable the objectives of the European Green Deal (alongside transitional risks for those who cannot comply). The tailwinds within energy have intensified following Russia's invasion of Ukraine.

Climate action in the US

The green winds of change are not only blowing in Europe. President Biden's administration has adopted climate change as one of its main priorities and has set a US target of halving emissions by 2030 compared to 2005 levels and net zero emissions by 2050. Targets which to some extent are already being actioned, for example in the USD 1.2trn “Infrastructure Investment and Jobs Act” that was signed into law in November 2021, containing investments in e.g. EV charging infrastructure, upgrading the power grid and increasing electrification, with USD 550bn being new federal spending to be allocated over the coming five years and USD 80bn earmarked for the “green” energy transition.

Figure 11: US Infrastructure Investments and Jobs Act - energy transition spending

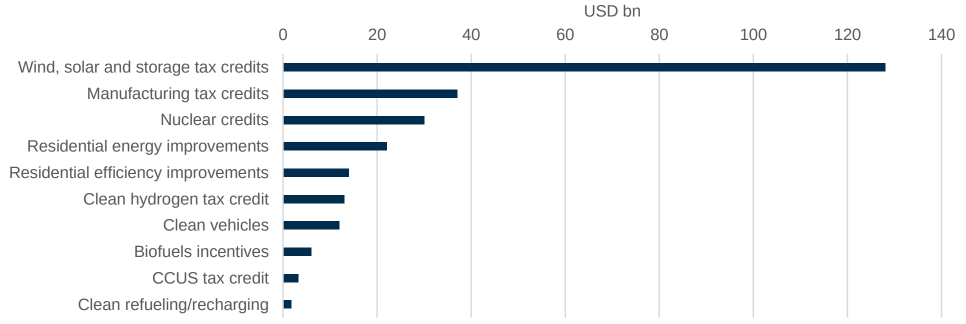


Source: Handelsbanken Capital Markets, BloombergNEF, The White House,

Inflation Reduction Act: USD 369bn for climate and energy funding over the next ten years

Another even more recent example is the Inflation Reduction Act, which was ironed out in the summer of 2022. It is a federal law which applies throughout the US. The Inflation Reduction Act includes about USD 369bn of climate and energy funding over the coming ten years. The bill is smaller than the previous USD 555bn allocated to climate programmes in the original Build Back Better bill, which was blocked. The renamed and reframed Inflation Reduction Act is still the largest single investment in fossil-free energy and climate programmes in US history. It includes actions to accelerate the expansion of renewable energy, support the deployment of energy efficiency technologies and speed up the adoption of electric vehicles. Tax credits are the main means employed in the bill to achieve its targets, expanding or extending credits for sectors related to the energy transition.

Table 22: Estimated energy transition spending − Inflation Reduction Act 2022-31



Source: Handelsbanken Capital Markets, BloombergNEF, EPA.
Note: Chart only captures tax credits and incentives, not grant programmes or loans.

USD 128bn in wind, solar and storage tax credits…

For fossil-free energy, the bill contains, for example, an estimated USD 128bn of tax credit extension and expansion for solar panels, wind turbines, batteries, and geothermal plants. The ten-year extension of these also gives renewable energy providers in the US the certainty they need to build and expand fossil-free energy projects over the longer term.

…tax credits for electric vehicles…

The Inflation Reduction Act also features consumer tax credits for electric vehicles, including hydrogen fuel cell vehicles. There is a tax credit of up to USD 4,000 for used EVs (and hydrogen vehicles), and USD 7,500 for new ones. There is also the removal of the current EV tax credit cap that prevents consumers from receiving the full USD 7,500 if they buy from an automaker that has sold over 200,000 EVs. Overall, the bill significantly expands tax credits to more consumers and different types of vehicles. However, it also introduces some new requirements regarding materials and battery components for accessing the tax credits. For example, setting a percentage of the value of the battery components that must be manufactured or assembled in North America, which is intended to encourage automakers to on-shore their EV and battery manufacturing. The bill also includes a new tax credit programme for biofuels and extensions of existing programmes, e.g. extending the USD 1 per gallon biodiesel tax credit through 2024 (it was set to expire in 2022).

...and e.g. USD 10bn for greener housing

In terms of energy efficiency, the bill includes USD 9bn in consumer home energy rebate programmes, focused on low-income consumers, for energy-efficient retrofits and to electrify home appliances as well as ten years of consumer tax credits to make heat pumps, rooftop solar panels, electric HVAC and water heaters more affordable. There is also a USD 1bn grant programme to make affordable housing more energy efficient.

Table 23: Examples of US climate and energy provisions

Program	Description	Amount (USD bn)
Renewable Energy Production Tax Credit	Extension and modification of the Production Tax Credit (PTC) for electricity produced from renewable resources including solar, wind and geothermal projects.	
Investment Tax Credit	Extension and modification of the Investment Tax Credit (ITC) to expand clean energy manufacturing for electric vehicles, wind turbines, and solar panels. The expanded tax credit also applies to energy storage technology, qualified biogas properties and mircogrid controllers.	
Nuclear Production Tax Credit	Tax credit for zero-emission nuclear power production, including TVA reactors which would qualify for direct payments as non-tax entities.	
Transmission Facility Loans	Direct loan authority for transmission facility financing	2
EV Tax Credit	Up to USD 7,500 consumer tax credit for the purchase of new EVs.	
Used EV Tax Credit	Up to USD 4,000 new consumer tax credit for the purchase of used EVs.	
Commercial EV Tax Credit	New commercial tax credit for qualified commercial clean vehicles.	
EV Charging/Alternative Fuels Tax Credit	Alternative refueling property credit.	
Biodiesel Tax Credit	Extension of invesntives for biodiesel, renewable diesel and alternative fuels.	
Alternative and Renewable Fuels Tax Credit	Extends a USD 1/gallon tax credit for biodiesel and renewable diesel through 2024, extends the alternative fuel credit, the alternative fuel mixing credit, and payments for alternative fuels through 2024.	
USPS EVs	Funding for USPS to purchase zerp-emission electric delivery vehicles and install charging infrastructure.	3
Clean Ports	Supports the purchase and installation of zero-emission equipment and technology at ports.	3
Zero-emissions trucks and buses	Funding for clean heavy-duty vehicles like school, transit buses and garbage trucks.	1
Residential Energy Efficiency Tax Credit	Extension, increase, and modifications of nonbusiness energy property credit.	
Residential Clean Electricity Tax Credit	Residential clean energy credit.	
Commercial Energy Efficiency Tax Deduction	Energy efficient commercial buildings deduction.	
Home Electrification and Energy Efficiency Rebates	Home energy performance-based, whole house rebates. Rebates for energy efficiency retrofits range from USD 2,000-4,000 for individual households and up to USD 400,000 for multifamily buildings.	9
High-efficiency electric home rebate program	Funding for states to develop a high-efficiency electric home rebate program.	4.3
Affordable Housing Resilience and Efficiency Investments	Funding to improve energy efficiency or water efficiency or climate resilience of affordable housing.	1
Clean Manufacturing Invesment Tax Credit	Extension of the Advanced Energy Project Credit.	
Wind, Solar, and Battery Manufacturing Production Tax Credit	Advanced manufacturing production credit.	
Clean Energy Fund	USD 27bn to establish a new Greenhous Gas Reduction Fund to accelerate deployment of low-carbon technologies.	27
Climate Pollution Reduction Grants	EPA funding for states, municipalities, and Indian Tribes to develop and implement plans to reduce climate pollution.	5
Air Pollution Reduction Investment	Funding to reduce diesel emissions, address air pollution at large and at schools, and the Clean Air Act.	0.4
Environmental Data and Enforcement	USD 102m for programs to reduce air pollution, boost air quality monitoring and data collection, and strengthen enforcement technology.	0.1
Coastal Climate Resilience	Funding to restore coastal ecosystems, mitigate climate change, protect coastal communities, and improve fish and wildlife habitat.	2.6
Methane Emissions Reduction Program	Establishes fee on excess methane emissions beggining at USD 900/ton in 2024, increasing to USD 1,200/ton in 2025, and USD 1,500 in 2026 (and onwards).	

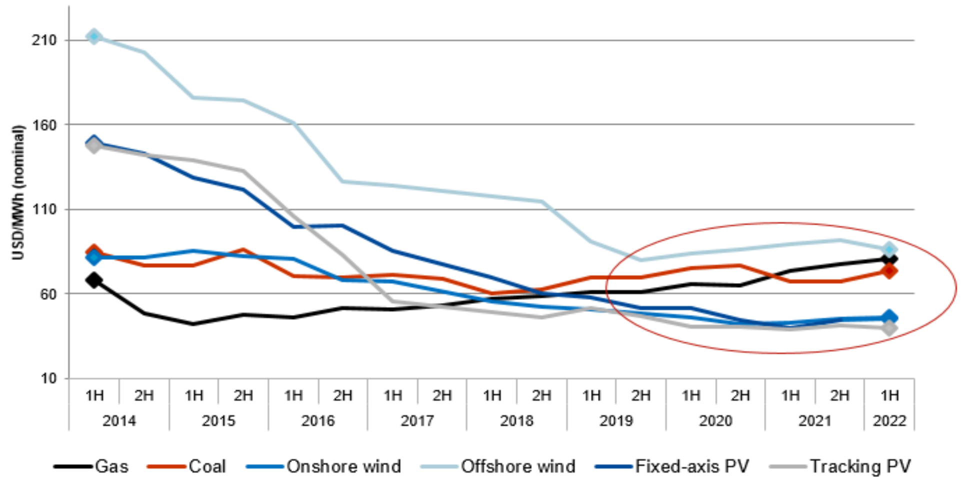
Source: Handelsbanken Capital Markets, Congressional Progressive Caucus Center, US Inflation Reduction Act, BloombergNEF

Different types of "flation"

The cost of generating electricity from renewable power is already today often significantly lower than that from conventional power plants. This is attractive given the soaring electricity prices currently.

Soaring electricity prices make renewables investment cases attractive

Table 24: Global levelised cost of electricity (LCOE), USD per MWh



Source: Handelsbanken Capital Markets, BloombergNEF

The transition to green energy could create inflationary supply shortages – so-called "greenflation"...

While investment in renewable energy might seem to be an obvious course of action, the transition to a new steady state is not without its issues. One concern is "greenflation", which is inflation caused by increased capital investment to comply with environmental and climate objectives. In other words, costs rise as the flow of fossil energy is reduced before there is corresponding growth in the supply of fossil-free sources. This may be exacerbated by an increased demand for critical materials and resources needed to "green" the economy, such as lithium, cobalt and nickel, outpacing supply in the short and medium term. (The supply shortages also highlight the importance of the economy becoming more resource efficient and circular, in our view.)

...but some argue the opposite or that it would not necessarily be a problem...

This "greenflation" might not sound particularly attractive, and perhaps could be a strong argument against accelerating green investments at a time when inflation is already high. Yet, while we find it relevant to keep in mind, many also argue quite the opposite. In other words, deploying renewable power will help to reduce inflation, and the faster the world deploys renewables, the more money will be saved in energy costs. In a working study designed to calculate the future energy system costs, a group of academics at Oxford University notes that a rapid "green" energy transition will likely result in an overall net saving of several trillion dollars compared to continuing with a fossil-fuel-based system (even without accounting for climate damages or co-benefits of climate policy) (Way et al., 2021). As another example, in an economic commentary from the Swedish central bank, Mikael Apel, senior advisor at the Department of Monetary Policy, writes that although there is considerable uncertainty over the extent to which the climate transition will affect inflation, there are scenarios in which the impact will be either limited or easy for monetary policy to address. Also, Apel argues that if the climate transition were to lead to higher inflationary pressures than in recent decades, this would not necessarily be a problem since there is no corresponding restriction on using the interest rate tool to maintain the inflation target.

Climate action can also be motivated by "climateflation" (yes, another "flation"), which is inflationary pressure caused by rising numbers of extreme weather events impacting economic activity and prices (causing supply chain disruptions), such as droughts reducing crop yields and lowering water levels rendering vital waterways impassable (such as the Rhine this summer). Without action to mitigate climate change, the problem of climateflation will continue to grow.

... either way, governments are going for climate action

Although the extent to which the climate will affect inflation is highly uncertain, it seems that both the US government (more accurately the Democrats) and the EU believe the benefits outweigh the costs. As stated by Isabel Schnabel from the Executive Board of the ECB: *"There is a price to be paid for going green at a pace that reflects the dual objective of safeguarding both our planet and our right to self-determination. But that price, including the fiscal support required to protect the most vulnerable members of society, is worth paying".*

US and EU governments view green spending as key

Whatever the complexities of the environmental impact on inflation, we conclude that both the EU and the US appear to consider green spending essential, despite the recent inflation surge. This belief is supported by recent policy action such as REPowerEU and the US' climate and energy spending in the Inflation Reduction Act.

Disclaimers

Recommendation structure and allocations

Handelsbanken Capital Markets Equity Research (HCM) employs a three-graded short-term and long-term recommendation scale. The short-term recommendations reflect the analyst's assessment of how much the share price may appreciate or depreciate in absolute terms on a three-month time horizon and the long-term recommendations reflect the analyst's assessment of how much the share price may appreciate or depreciate in absolute terms on a three-year time horizon.

The analyst's assessment takes into account risks related to both fundamental expectations and share performance. This assessment is not based on a proprietary HCM model and the basis for the analyst's assessment is dependent on the characteristics of the sector and the company and a multitude of fundamental and timing factors are incorporated. For more detailed information about the recommendation structure please consult the Handelsbanken Capital Markets website: https://www.researchonline.se/desc/recstruct.

Investment recommendations are determined by the ranges described in the table below. The recommendations do not represent the analyst's or the bank's assessment of the company's fundamental value or quality. The recommendations and absolute performance intervals, together with the allocation of the recommendation categories amongst companies under coverage and amongst companies under coverage for which Handelsbanken has provided investment banking services in the past 12 months are listed below:

Ratings: definitions and allocations

HCM short-term rating (3 months)	Return expected to be[1]	HCM Universe[2]	IB services[3]
Buy	above 5%	39%	10%
Hold	between 0% and 5%	57%	20%
Sell	below 0%	4%	14%

[1] Return expected to be is defined as the expected share price appreciation or depreciation including dividends over the next three months
[2] Percentage of companies under coverage within each recommendation
[3] Percentage of companies within each recommendation for which investment banking services have been provided in the past 12 months

Ratings: definitions and allocations

HCM long-term rating (3 years)	R_{TP} is expected to be[4]	HCM Universe[5]	IB services[6]
Outperform	above 40%	49%	12%
Market Perform	between 20% and 40%	45%	20%
Underperform	below 20%	6%	18%

[4] R_{TP} is defined as the expected share price appreciation or depreciation including dividends over the next three years
[5] Percentage of companies under coverage within each recommendation
[6] Percentage of companies within each recommendation for which investment banking services have been provided in the past 12 months

Source: Handelsbanken Capital Markets, as per 30/8 2022

Recommendations are continuously reviewed by the analyst and monitored by the Research Management and will be updated and/or refreshed regularly. The rationale behind a change in recommendation will be explained in such a refresher/update.

A list of all recommendations made by investment research during the preceding 12-month period is available here: https://www.researchonline.se/desc/rechist.

The target price (TP) is the analyst's assessment of the level at which the share should be traded in a three-year period. The TP is used as a basis for the recommendation (see explanation above) and takes into account timing-related issues and triggers, such as relative valuation and newsflow. The TP does not represent the analyst's or the bank's assessment of the company's fundamental value or quality.

Unless otherwise specified, share prices mentioned in this report refer to the closing price of the previous day.

Risk warning

All investments involve risks and investors are encouraged to make their own decision as to the appropriateness of an investment in any securities referred to in this report, based on their specific investment objectives, financial status and risk tolerance. The historical return of a financial instrument is not a guarantee of future return. The value of financial instruments can rise or fall, and it is not certain that you will get back all the capital you have invested. At times, the expected total returns may fall outside of the above stated ranges because of price movement and/or volatility. Such interim deviations from specified ranges will be permitted but will become subject to review by Research Management.

Valuation and methodology

Handelsbanken Capital Markets provides investment research as defined in Article 36(1) of Commission Delegated Regulation (EU) 2017/565 of 25 April 2016 supplementing Directive 2014/65/EU of the European Parliament and of the Council as regards organisational requirements and operating conditions for investment firms and defined terms for the purposes of that Directive. Target prices, outlooks and recommendations expressed in this research report are based on a combination of valuation models, such as discounted cash flow (DCF) and relative valuation to peers using ratios such as price-to-earnings (P/E), enterprise-value-to-operating-profit (EV/EBITDA), price-to-book (P/B) and earnings models. Sales and earnings forecasts are based on historical financial data as reported by the company and the analyst's expectations for company-specific performance are derived from expectations of micro- and macroeconomic developments. The company's different business segments are modelled separately in this process and then aggregated to achieve group forecasts for sales, earnings, cash flow and the balance sheet. For more detailed information about the valuation and methodology please consult the Handelsbanken Capital Markets website: https://www.researchonline.se/desc/disclaimers.

Research disclaimers

Handelsbanken Capital Markets, a division of Svenska Handelsbanken AB (publ) (collectively referred to herein as 'SHB'), is responsible for the preparation of research reports. SHB is regulated in Sweden by the Swedish Financial Supervisory Authority, in Norway by the Financial Supervisory Authority of Norway, in Finland by the Financial Supervisory Authority of Finland and in Denmark by the Danish Financial Supervisory Authority. All research reports are prepared from trade and statistical services and other information that SHB considers to be reliable. SHB has not independently verified such information.

In no event will SHB or any of its affiliates, their officers, directors or employees be liable to any person for any direct, indirect, special or consequential damages arising out of any use of the information contained in the research reports, including without limitation any lost profits even if SHB is expressly advised of the possibility or likelihood of such damages.

The views contained in SHB research reports are the opinions of employees of SHB and its affiliates and accurately reflect the personal views of the respective analysts at this date and are subject to change. There can be no assurance that future events will be consistent with any such opinions. Each analyst identified in this research report also certifies that the opinions expressed herein and attributed to such analyst accurately reflect his or her individual views about the companies or securities discussed in the research report. This research report does not, and does not attempt to, contain everything material that there is to be said about the company or companies described herein. For additional information about our research methodology please visit, https://reon.researchonline.se/desc/disclaimers.

Research reports are prepared by SHB for information purposes only. The information in the research reports does not constitute a personal recommendation or personalised investment advice and such reports or opinions should not be the basis for making investment or strategic decisions. This document does not constitute or form part of any offer for sale or subscription of or solicitation of any offer to buy or subscribe for any securities nor shall it or any part of it form the basis of or be relied on in connection with any contract or commitment whatsoever. Past performance may not be repeated and should not be seen as an indication of future performance. The value of investments and the income from them may go down as well as up and investors may forfeit all principal originally invested. Investors are not guaranteed to make profits on investments and may lose money. Exchange rates may cause the value of overseas investments and the income arising from them to rise or fall. This research product will be updated on a regular basis.

No part of SHB research reports may be reproduced or distributed to any other person without the prior written consent of SHB. The distribution of this document in certain jurisdictions may be restricted by law and persons into whose possession this document comes should inform themselves about, and observe, any such restrictions.
The report does not cover any legal or tax-related aspects pertaining to any of the issuer's planned or existing debt issuances.

Please be advised of the following important research disclosure statements:

SHB employees, including analysts, receive compensation that is generated by overall firm profitability. Analyst compensation is not based on specific corporate finance or debt capital markets services. No part of analysts' compensation has been, is or will be directly or indirectly related to specific recommendations or views expressed within research reports.

From time to time, SHB and/or its affiliates may provide investment banking and other services, including corporate banking services and securities advice, to any of the companies mentioned in our research.

We may act as adviser and/or broker to any of the companies mentioned in our research. SHB may also seek corporate finance assignments with such companies.

We buy and sell securities mentioned in our research from customers on a principal basis. Accordingly, we may at any time have a long or short position in any such securities. We may also make a market in the securities of all the companies mentioned in this report. [Further information and relevant disclosures are contained within our research reports.]
SHB, its affiliates, their clients, officers, directors or employees may own or have positions in securities mentioned in research reports.

In conjunction with services relating to financial instruments, the Bank may, under certain circumstances, pay or receive inducements, i.e. fees and commission from parties other than the customer. Inducements may be both monetary and non-monetary benefits. If inducements are paid to or received from a third party, it is required that the payment must aim to improve the quality of the service, and the payment must not prevent the Bank from safeguarding the customer's interests. The customer must be informed about such remuneration that the Bank receives. When the Bank provides investment research, the Bank receives minor non-monetary benefits. Minor non-monetary benefits consist of the following:

- Information or documentation about a financial instrument or an investment service that is general in character.
- Written material produced by a third party that is an issuer to market a new issue.
- Participation at conferences and seminars regarding a specific instrument or investment service
- Corporate hospitality up to a reasonable amount.

The Bank has adopted Guidelines concerning Research which are intended to ensure the integrity and independence of research analysts and the research department, as well as to identify actual or potential conflicts of interests relating to analysts or the Bank and to resolve any such conflicts by eliminating or mitigating them and/or making such disclosures as may be appropriate. As part of its control of conflicts of interests, the Bank has introduced restrictions ("Information barriers") on communications between the Research department and other departments of the Bank. In addition, in the Bank's organisational structure, the Research department is kept separate from the Corporate Finance department and other departments with similar remits. The Guidelines concerning Research also include regulations for how payments, bonuses and salaries may be paid out to analysts, what marketing activities an analyst may participate in, how analysts are to handle their own securities transactions and those of closely related persons, etc. In addition, there are restrictions in communications between analysts and the subject company. According to the Bank's Ethical Guidelines for the Handelsbanken Group, the board and all employees of the Bank must observe high standards of ethics in carrying out their responsibilities at the Bank, as well as other assignments. For full information on the Bank's ethical guidelines please see the Bank's website www.handelsbanken.com and click through to About the Group – Policy documents and guidelines – Policy on Ethical standards. Handelsbanken has a ZERO tolerance of bribery and corruption. This is established in the Bank's Group Policy on Bribery and Corruption. The prohibition against bribery also includes the soliciting, arranging or accepting bribes intended for the employee's family, friends, associates or acquaintances. For full information on the Bank's Policy against corruption please see the Bank's website www.handelsbanken.com and click through to About the Group – Policy documents and guidelines – Policy against corruption.

When distributed in the UK

This document may be distributed in the United Kingdom only to persons who are authorised or exempted persons within the meaning of the Financial Services and Markets Act 2000 (as amended) (or any order made thereunder) or (i) to persons who have professional experience in matters relating to investments falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (the "Order"), (ii) to high net worth entities falling within Article 49(2)(a) to (d) of the Order or (iii) to persons who are professional clients under Chapter 3 of the Financial Conduct Authority Conduct of Business Sourcebook (all such persons together being referred to as "Relevant Persons").

Any person who is not a Relevant Person may not rely on this research report.
UK customers should note that neither the UK Financial Services Compensation Scheme for investment business nor the rules of the Financial Conduct Authority made under the UK Financial Services and Markets Act 2000 (as amended) for the protection of private customers apply to this research report and accordingly UK customers will not be protected by that scheme.

When distributed in the United States

Important Third-Party Research Disclosures:
SHB research is not "globally branded" research and each recipient of SHB research is advised that in the United States, SHB research is distributed by Handelsbanken Markets Securities, Inc., ("HMSI") an affiliate of SHB. HMSI does not produce research and does not employ research analysts. SHB research and SHB research analysts and its employees are not subject to FINRA's research analyst rules which are intended to prevent conflicts of interest by, among other things, prohibiting certain compensation practices, restricting trading by analysts and restricting communications with the companies that are the subject of the research report. SHB has no affiliation or business or contractual relationship with HMSI that is reasonably likely to inform the content of SHB research reports; SHB makes all research content determinations without any input from HMSI.
SHB research reports are intended for distribution in the United States solely to "major U.S. institutional investors," as defined in Rule 15a-6 under the Securities Exchange Act of 1934. Each major U.S. institutional investor that receives a copy of research report by its acceptance hereof represents and agrees that it shall not distribute or provide research reports to any other person.
Any U.S. person receiving SHB research reports that desires to effect transactions in any equity securities discussed within the research reports should call or write HMSI. HMSI is a FINRA Member, telephone number (+1-212-326-5153).

Company-specific disclosures

This report has not been given to the subject company, or any other external party, prior to publication to approve the accuracy of the facts presented.

For company-specific disclosure texts, please consult the Handelsbanken Capital Markets website:
https://www.researchonline.se/desc/disclosure.

To find out when a recommendation on a specific company was first published, please consult the Handelsbanken Capital Markets website https://www.researchonline.se/equity/company.

AFRY

The short-term recommendation Hold was set on 2022-03-11 as the first short-term recommendation for the company at the share price of SEK 173.
On 2022-06-23 the long-term recommendation Underperform, which was set on 2022-03-11 at the share price of SEK 173, was changed to the current long-term recommendation Market Perform at a share price of SEK 137.

Gränges

On 2022-04-07 the short-term recommendation Buy, which was set on 2022-03-11 at the share price of SEK 75.95, was changed to the current short-term recommendation Hold at a share price of SEK 88.65.
The long-term recommendation Outperform was set on 2022-03-12 as the first long-term recommendation for the company at the share price of SEK 75.95.

Nederman

The short-term recommendation Buy was set on 2022-03-11 as the first short-term recommendation for the company at the share price of SEK 179.
The long-term recommendation Outperform was set on 2022-03-11 as the first long-term recommendation for the company at the share price of SEK 179.

NIBE Industrier

The short-term recommendation Hold was set on 2022-03-11 as the first short-term recommendation for the company at the share price of SEK 92.88.
The long-term recommendation Market Perform was set on 2022-03-11 as the first long-term recommendation for the company at the share price of SEK 92.88.

Rejlers

The short-term recommendation Buy was set on 2022-03-11 as the first short-term recommendation for the company at the share price of SEK 122.
The long-term recommendation Outperform was set on 2022-03-12 as the first long-term recommendation for the company at the share price of SEK 122.

Sweco
The short-term recommendation Hold was set on 2022-03-11 as the first short-term recommendation for the company at the share price of SEK 131.
The long-term recommendation Market Perform was set on 2022-03-12 as the first long-term recommendation for the company at the share price of SEK 131.

Tomra
On 2022-08-26 the short-term recommendation Sell, which was set on 2022-03-11 at the share price of NOK 413, was changed to the current short-term recommendation Hold at a share price of NOK 225.
On 2022-08-26 the long-term recommendation Underperform, which was set on 2022-03-11 at the share price of NOK 413, was changed to the current long-term recommendation Outperform at a share price of NOK 225.

Valmet
On 2022-05-04 the short-term recommendation Hold, which was set on 2022-04-05 at the share price of EUR 28.26, was changed to the current short-term recommendation Buy at a share price of EUR 24.88.
The long-term recommendation Outperform was set on 2022-03-11 as the first long-term recommendation for the company at the share price of EUR 30.38.

Stockholm
Blasieholmstorg 11
SE-106 70 Stockholm
Tel. +46 8 701 10 00
Fax. +46 8 611 11 80

Copenhagen
Havneholmen 29
DK-1561 Copenhagen V
Tel. +45 46 79 12 00
Fax. +45 46 79 15 52

Helsinki
Itämerenkatu 11-13
FI-00180 Helsinki
Tel. +358 10 444 11
Fax. +358 10 444 2578

Oslo
Tjuvholmen allé 11
Postboks 1249 Vika
NO-0110 Oslo
Tel. + 47 22 39 70 00
Fax. + 47 22 39 71 60

London
3 Thomas More Square
London GB-E1W 1WY
Tel. +44 207 578 8668
Fax. +44 207 578 8090

New York
Handelsbanken Markets Securities, Inc.
875 Third Avenue, 4th Floor
New York, NY 10022-7218
Tel. +1 212 326 5153
Fax. +1 212 326 2730
FINRA, SIPC

Equity Research

Head of Equity Research

Mattias Sundling	+46 8 701 2885

Healthcare

Mattias Häggblom	+46 8 701 1256
Suzanna Queckbörner	+46 8 701 1349
Rickard Anderkrans	+46 8 701 1995

Real Estate

Johan Edberg	+46 8 701 4351
Oscar Lindquist	+46 8 701 2014

Financials

Thomas Eskildsen	+45 46 79 1587

Equity Strategy

Mattias Sundling	+46 8 701 2885
Lee Norgren	+46 8 701 4338
Pauline Götesson	+46 8 701 1605

Small & Micro cap

Fredrik Lithell	+46 8 701 2845
Rasmus Engberg	+46 8 463 3611
Anna Lindholm-Widström	+46 8 701 1301

Consumer & E-Commerce

Karri Rinta	+46 8 701 3636
Nicklas Skogman	+46 8 701 3128
Kjetil Lye	+47 22 39 7299

Sustainability

Josefin Johansson	+46 8 701 2853
Lina Blume	+46 8 701 1302

Industrials

Hampus Engellau	+46 8 701 3576
Gustaf Schwerin	+46 8 701 1381
Max Boustedt	+46 8 701 1323
Timo Heinonen	+358 10 444 2483

Materials

Christian Kopfer	+46 8 701 1077

Technology, Telecom & IT

Daniel Djurberg	+46 8 701 5575
Kristoffer Carleskär	+46 8 701 5334
Fredrik Lithell	+46 8 701 2845

Private Client Advisory

Sweden

Peter Engstedt	+46 8 701 3104
Viktor Carlsson	+46 8 701 1194
Lars Westberg	+46 8 701 4113

Denmark

Haider Anjum	+45 46 79 1621
Michelle Nørgaard	+45 46 79 1504

Equities Management

Christer Beckard, Global Head of Equities	+46 8 701 3481
Marcela Klang, Head of Equities Business Development & Governance	+46 8 701 5118
Mattias Sundling, Head of Equity Research	+46 8 701 2885
Mikael Malmrup, Head of Equity Sales, Nordic & Europe	+46 8 463 3615
Micaela Grimm, Head of Equity Sales, US	+1 212 838 5203
Olof Werneman, Head of Equity Market Making & Execution	+46 8 463 5751
Conny Wennberg, Head of Sales Trading & Equity Solutions	+46 8 463 2540
Joakim Endre, Head of Equity Capital Markets	+46 8 701 4133
Erica Fritzdorf, Head of Corporate Access & Events	+46 8 701 3228
Geraldine Guggenheimer, Head of Editing & Publishing	+46 8 701 1866

Svenska Handelsbanken AB (publ)

Stockholm
Blasieholmstorg 11
SE-106 70 Stockholm
Tel. +46 8 701 10 00
Fax. +46 8 611 11 80

Copenhagen
Havneholmen 29
DK-1561 Copenhagen V
Tel. +45 46 79 12 00
Fax. +45 46 79 15 52

Helsinki
Itämerenkatu 11-13
00180 Helsinki
Tel. +358 10 444 11
Fax. +358 10 444 2578

Oslo
Tjuvholmen allé 11
Postboks 1249 Vika
NO-0110 Oslo
Tel. +47 22 39 70 00
Fax. +47 22 39 71 60

London
Handelsbanken Plc
3 Thomas More Square
London GB-E1W 1WY
Tel. +44 207 578 8000
Fax. +44 207 578 8300

New York
Handelsbanken Markets Securities, Inc.
900 Third Avenue
New York, NY 10022-4792
Tel. +1 212 326 5153
Fax. +1 212 326 2730
FINRA, SIPC