



Skagen reef's lightskip, 1892. Detail. By Carl Locher, one of the Skagen painters. The picture is owned by the Skagens Museum.

# SKAGEN Kon-Tiki

## Status Report – July 2016

The art of common sense



# Highlights – July 2016

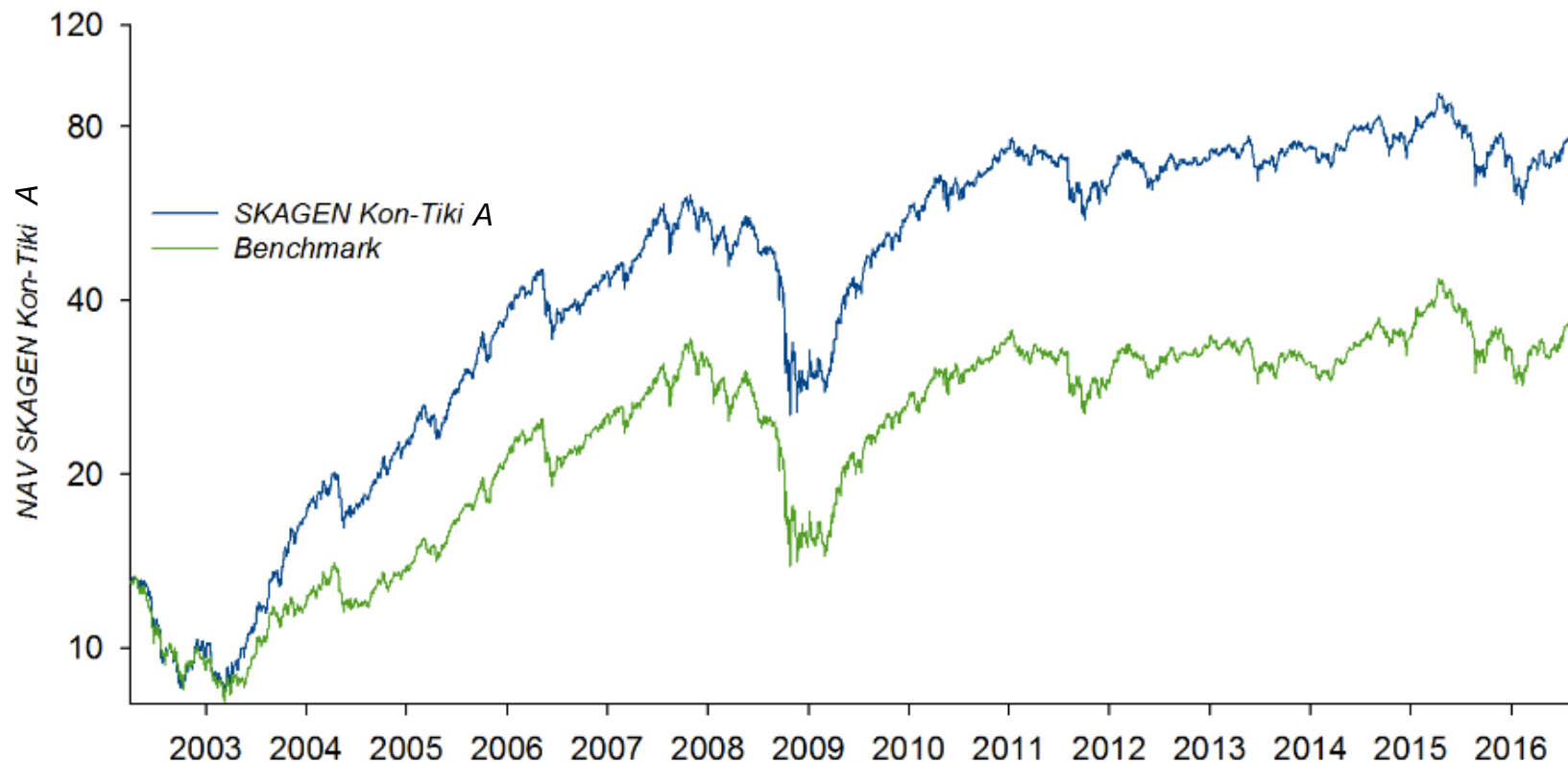
- SKAGEN Kon-Tiki\* was up 4.6% in July measured in EUR, in line with the MSCI Emerging Markets Index. Year to date, the fund is up 6.5% versus a 8.7% gain for the EM index. Emerging markets slightly outperformed developed markets during July, posting a 4.6% gain versus 4.1%. Year to date, emerging markets have returned 8.7% compared with a 2.5% gain for developed markets.
- Around the world, Egypt had a strong month with its stock index up 16% in EUR and it was announced that the country was negotiating an IMF loan program which is expected to be ratified in September. The Brazilian market continued marching higher with an 8% gain as its political situation stabilized while the Nigerian market had a tough month with a 17% loss, reversing the gain in June. Continued unrest in Turkey cost equity investors 6% for the month, although stocks have bounced off the low in July.
- During July we added a new position, French conglomerate Bolloré, as we believe the current stock price offers an attractive entry point into a long-term compounder.
- Our top three contributors were Samsung, Hyundai and Great Wall Motor, which combined comprised about 15% of the portfolio. Samsung released strong 2Q16 results with positive guidance (please see our take on page 18 ) and both Hyundai and Great Wall Motor rebounded after good 2Q16 results. The main detractor was Turkish holding company Sabanci, which sold off with the domestic market after the failed military coup. Its main bank holding reported good results and this bodes well for Sabanci. Nevertheless, we expect Turkish stocks to remain volatile as political risk dominates the headlines.
- As of end of July, 45% of our portfolio companies measured in value had reported quarterly earnings. Of these, more than three-quarters published positive results relative to our expectations. The positive fundamental results coincide with the recent flows into EM from investors seeking a 'safe haven' after the Brexit vote. While no market is insulated from global political risk, the sentiment toward EM among global investors is decisively turning more positive.
- While EM benefited from increased investor appetite in July, emerging markets still trade at a discount to developed markets, with a 2016e P/E of 13.2x and P/B of 1.5x for EM, compared with 16.8x and 2.0x for DM.
- The top 12 positions now represent more than 50% of the fund (from 45% at the beginning of 2015). The portfolio\*\* remains attractively valued at a 2016e P/E of 9.0x and P/B of 1.0x and we now see 49% upside for our portfolio over a 2-year horizon.

\* Unless otherwise stated, all performance data in this report relates to class A units and is net of fees.

\*\* Portfolio valuation refers to top 35 positions.

# Results, as of July 2016

EUR, net of fees



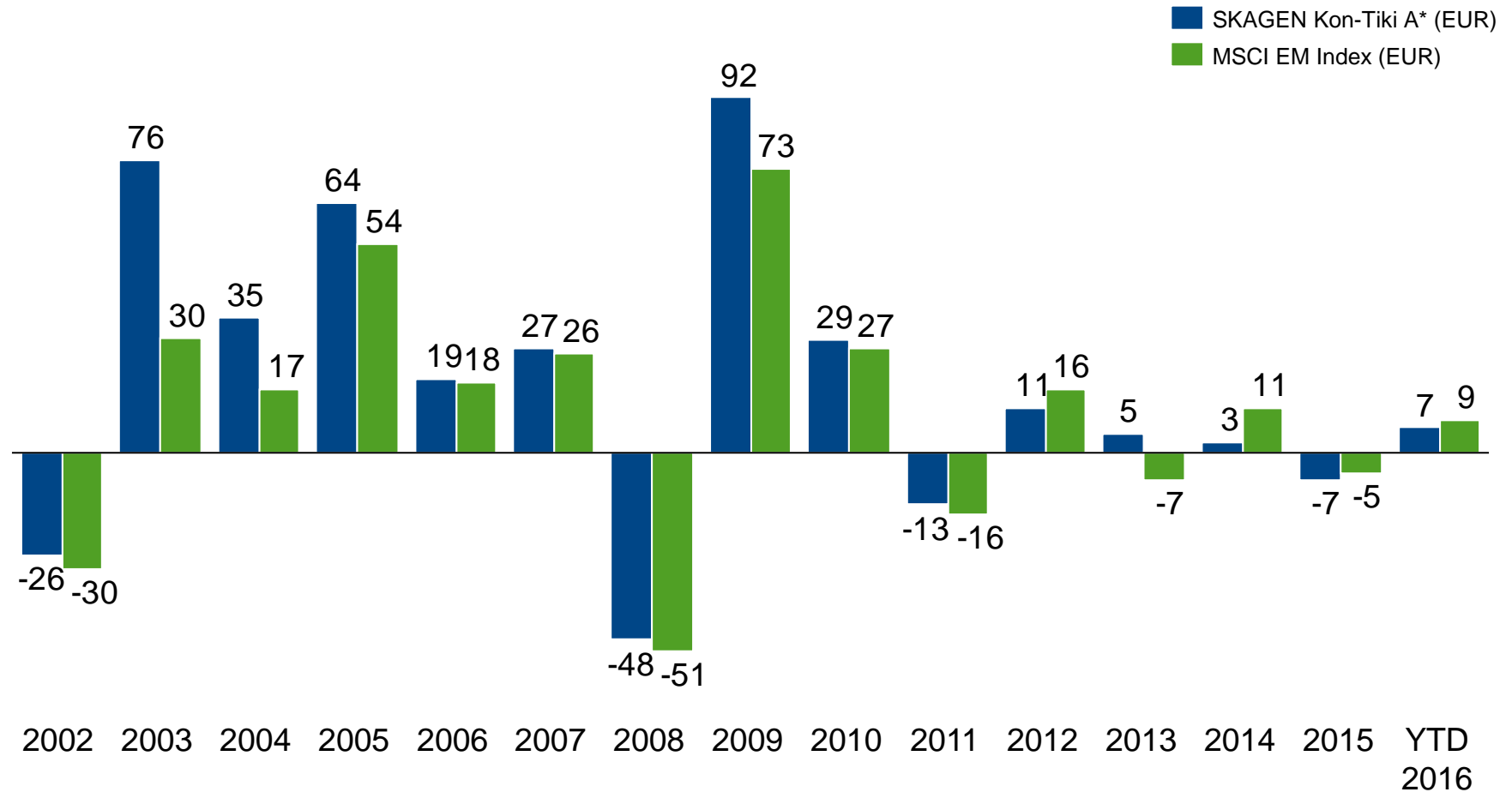
	July	QTD	YTD	1 year	3 years	5 years	10 years	Since inception*
SKAGEN Kon Tiki A	4,6%	4,6%	6,5%	-2,3%	3,1%	1,7%	6,9%	13,1%
MSCI EM	4,6%	4,6%	8,7%	-1,9%	5,6%	2,3%	5,3%	7,3%
Excess return	0,0%	0,0%	-2,3%	-0,4%	-2,5%	-0,6%	1,6%	5,7%

Note: All returns beyond 12 months are annualised (geometric return)

\* Inception date: 5 April 2002

# SKAGEN Kon-Tiki has beaten the index in 11/14 calendar years

Percent

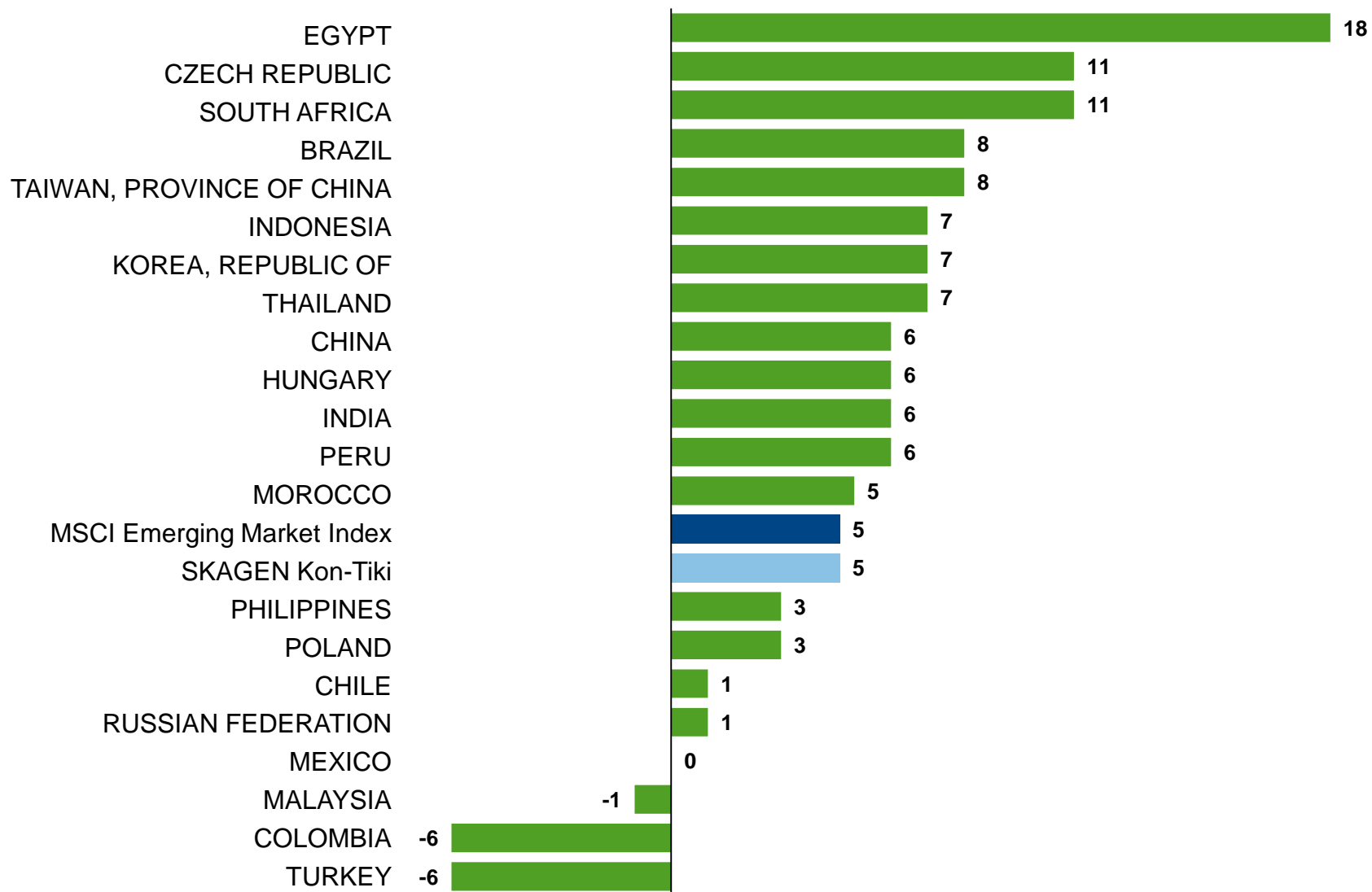


Note: All figures in EUR, net of fees

\* Inception date: 5 April 2002

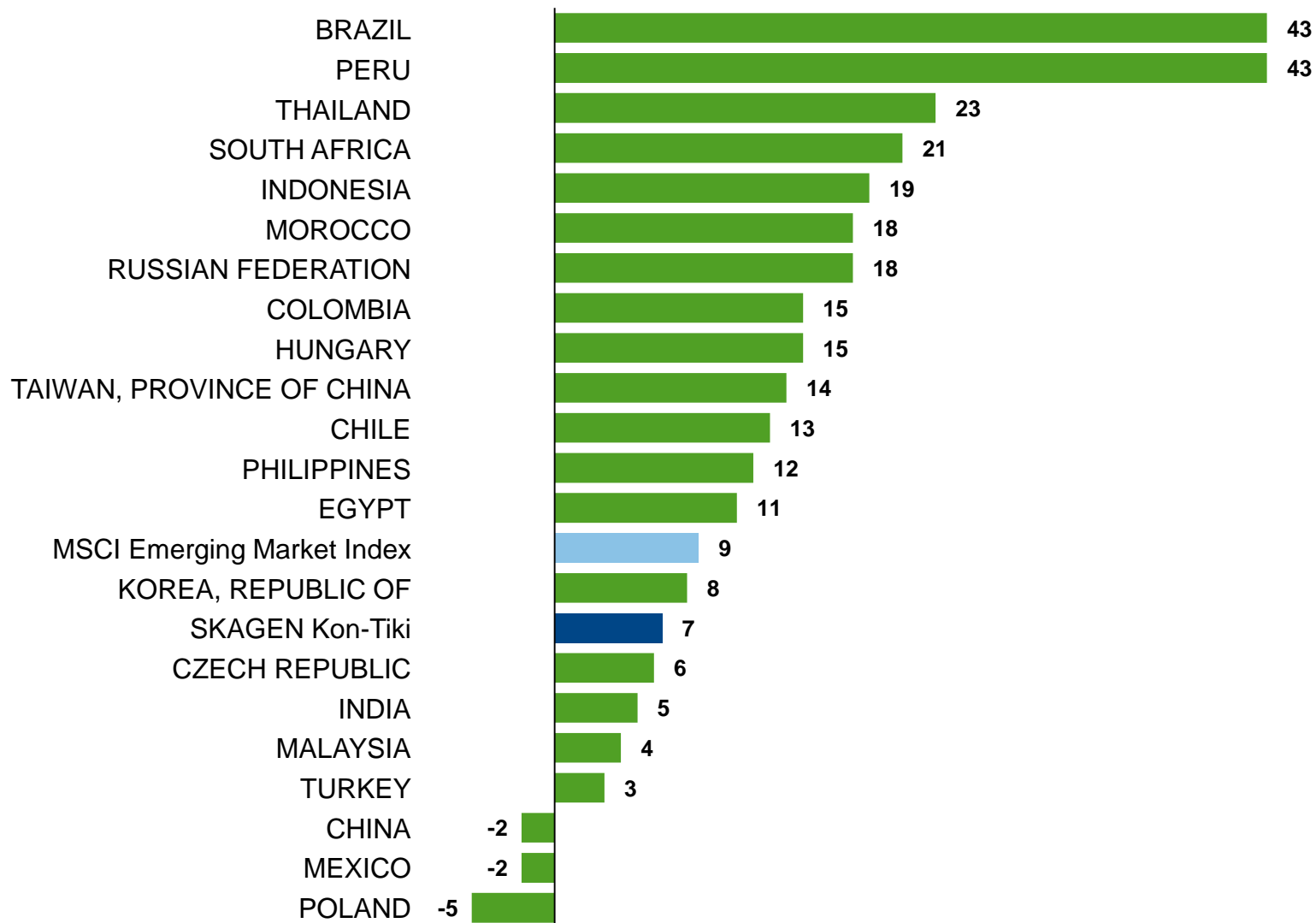
# Emerging markets, July 2016 (in EUR)

Percent



# Emerging markets, YTD 2016 (in EUR)

Percent



# Main contributors MTD and QTD 2016

## Largest positive contributors

Company	NOK Millions
Samsung Electronics	263
Hyundai Motor	199
Great Wall Motor	144
Banrisul	142
ABB Ltd	134
Mahindra & Mahindra	103
Richter Gedeon	89
Kiatnakin Bank	88
X5 Retail Group	85
State Bank of India	83

## Largest negative contributors

Company	NOK Millions
Sabancı Holding	-130
Tullow Oil	-66
Yazicilar Holding	-29
Diamond Bank	-18
Eczacibasi Holding	-13
LG Chem	-10
China Shineway Pharmaceutical	-9
Enka Insaat	-9
JSE	-9
Moscow Exchange	-9

**Value Creation MTD (NOK MM):**

**1824**

*NB: Contribution to absolute return*

# Main contributors YTD 2016

## Largest positive contributors

<i>Company</i>	<i>NOK Millions</i>
Barrisul	389
Cosan Ltd	378
Samsung Electronics	298
UPL	188
Mahindra & Mahindra	176
JSE	168
Kiatnakin Bank	158
Moscow Exchange	151
ABB	148
Indosat	134

## Largest negative contributors

<i>Company</i>	<i>NOK Millions</i>
Frontline	-361
Lenovo Group	-143
LG Chem	-134
Hyundai Motor	-108
Great Wall Motor	-104
Investment Kinnevik	-86
China Shipping Development	-81
China Shineway Pharmaceutical	-77
Korean Reinsurance	-72
Euronav	-70

**Value Creation YTD (NOK MM): 1375**

*NB: Contribution to absolute return*



# Holdings increased and decreased, July 2016

## Key buys during July

### **Bolloré (New)**

We initiated a position in French conglomerate Bolloré, as we believe the current stock price offers an attractive entry point into a long-term compounder.

## Key sells during July

### **Samsung Electronics**

We took advantage of the strong share price (now at an all-time high for our preference share) to prevent the weighting (7.5%) of the position increasing too much.

### **Moscow Stock Exchange**

We are reducing the position as the stock has had returned 38% in USD this year plus a 6% dividend, outpacing the Russian index and approaching our price target.

### **State Bank of India**

We took advantage of the recent strength in stock price to reduce the position.

# Most important changes Q1 2016

## Holdings increased

## Holdings reduced



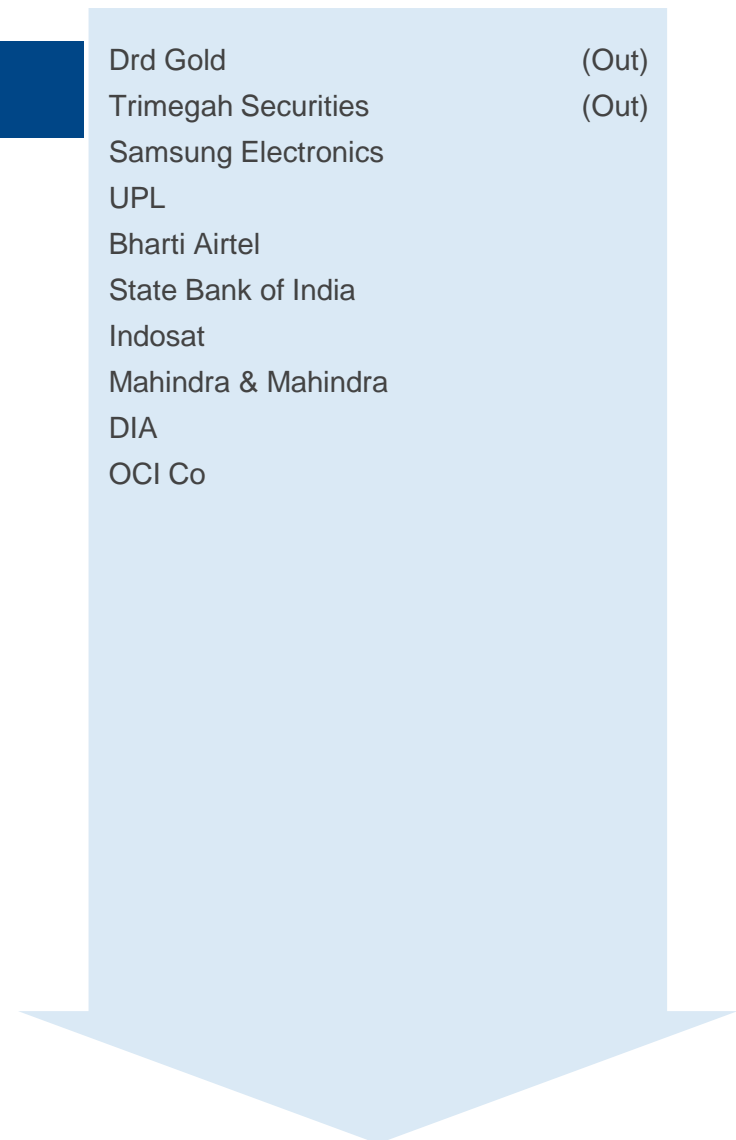
# Most important changes Q2 2016

## Holdings increased



Q2

## Holdings reduced



# Most important changes Q3 2016

## Holdings increased

Q3

Bollore

(New)

Q3

## Holdings reduced

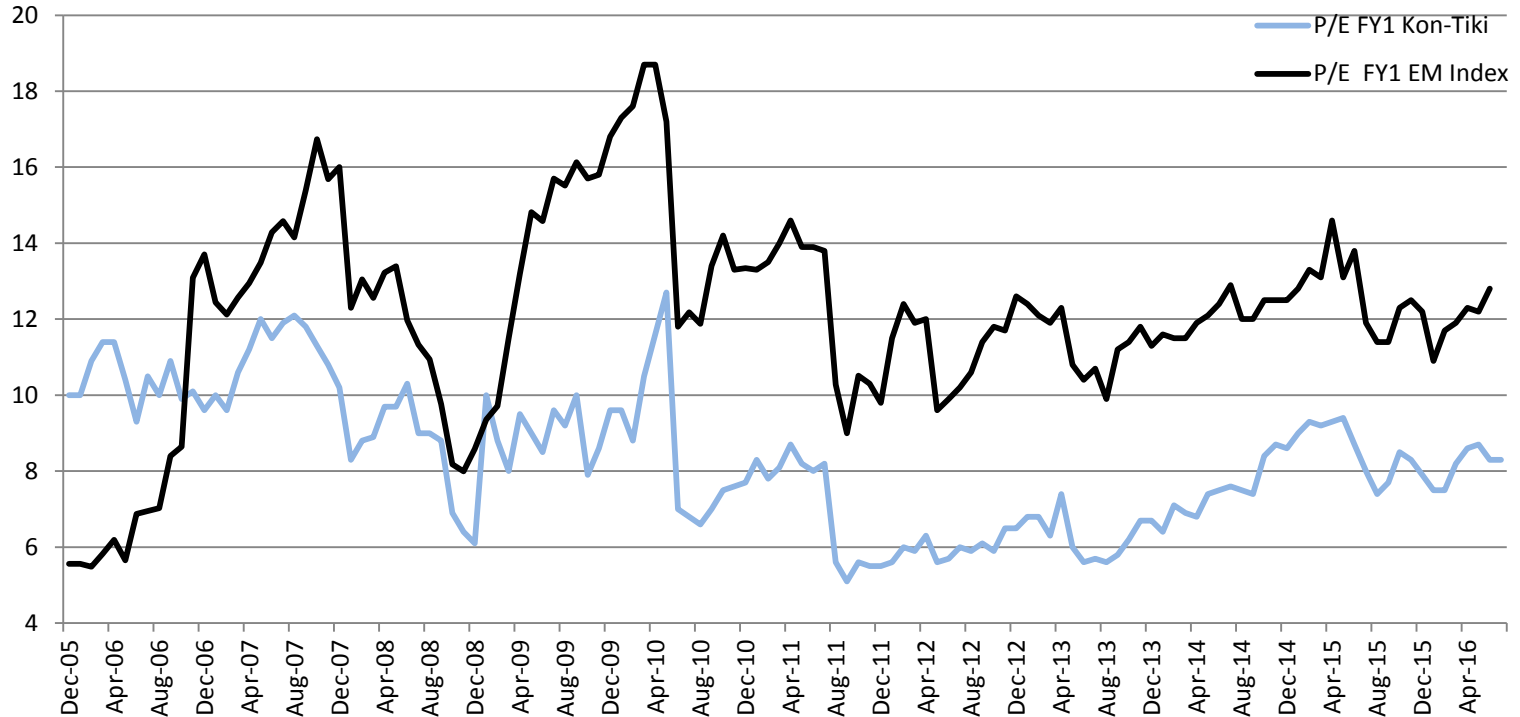
Samsung Electronics  
Moscow Exchange  
State Bank of India  
UPL  
Bharti Airtel  
Mahindra & Mahindra  
JSE

# Largest holdings SKAGEN Kon-Tiki, end of July 2016

	Holding size, %	Price	P/E 2016e	P/E 2017e	P/BV last	Div. yield 15e (%)	Price target	Upside %
Hyundai Motor	7,7	97 500	4,1	3,9	0,4	4,2	170 000	74
Samsung Electronics	7,3	1 265 000	8,2	7,4	1,0	1,7	1 700 000	34
Mahindra & Mahindra	5,6	1 467	19,6	14,7	3,0	0,8	2 000	36
Richter Gedeon	4,5	5 880	19,6	15,5	1,7	1,2	7 500	28
Sabancı Holding	4,3	8,9	6,1	5,6	0,9	1,7	14	57
State Bank of India	4,0	229	10,9	9,2	1,0	1,1	265	16
Naspers	3,7	157	34,8	24,1	6,6	0,3	216	38
ABB	3,2	182	17,4	15,9	3,6	3,5	200	10
X5 Retail Group	2,8	1 438	16,0	13,1	3,6	0,0	1 649	15
Cosan Ltd.	2,7	21,3	7,1	6,4	0,4	11,4	32	53
Bharti Airtel	2,4	362	22,6	20,1	2,3	0,4	400	10
SBI Holdings	2,2	1 129	8,1	7,5	0,7	4,0	2 500	121
<b>Weighted top 12</b>	<b>50,4</b>		<b>9,0</b>	<b>8,1</b>	<b>0,9</b>	<b>1,7</b>		<b>42</b>
<b>Weighted top 35</b>	<b>82,8</b>		<b>12,5</b>	<b>9,8</b>	<b>1,0</b>	<b>2,2</b>		<b>42</b>
<b>Emerging market index</b>			<b>13,2</b>	<b>11,6</b>	<b>1,5</b>	<b>2,9</b>		
<b>Top 35 @ price target</b>			<b>14,0</b>	<b>12,4</b>	<b>1,4</b>	<b>1,7</b>		

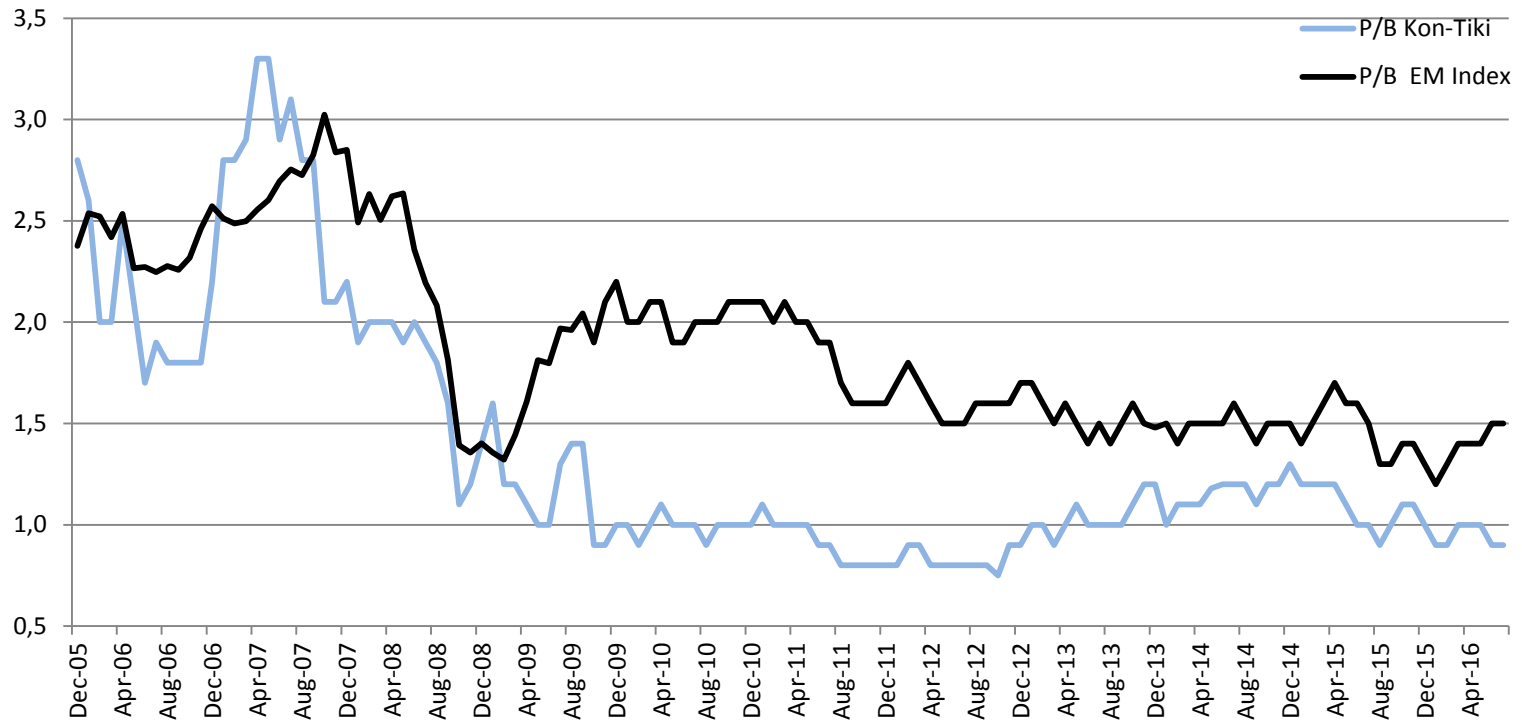
Note: Valuation estimates are based on SKAGEN Kon-Tiki's independent analysis and may vary from consensus estimates. Converted share prices to reported currency for Naspers, X5 and Cosan.

# P/E for SKAGEN Kon-Tiki versus emerging markets



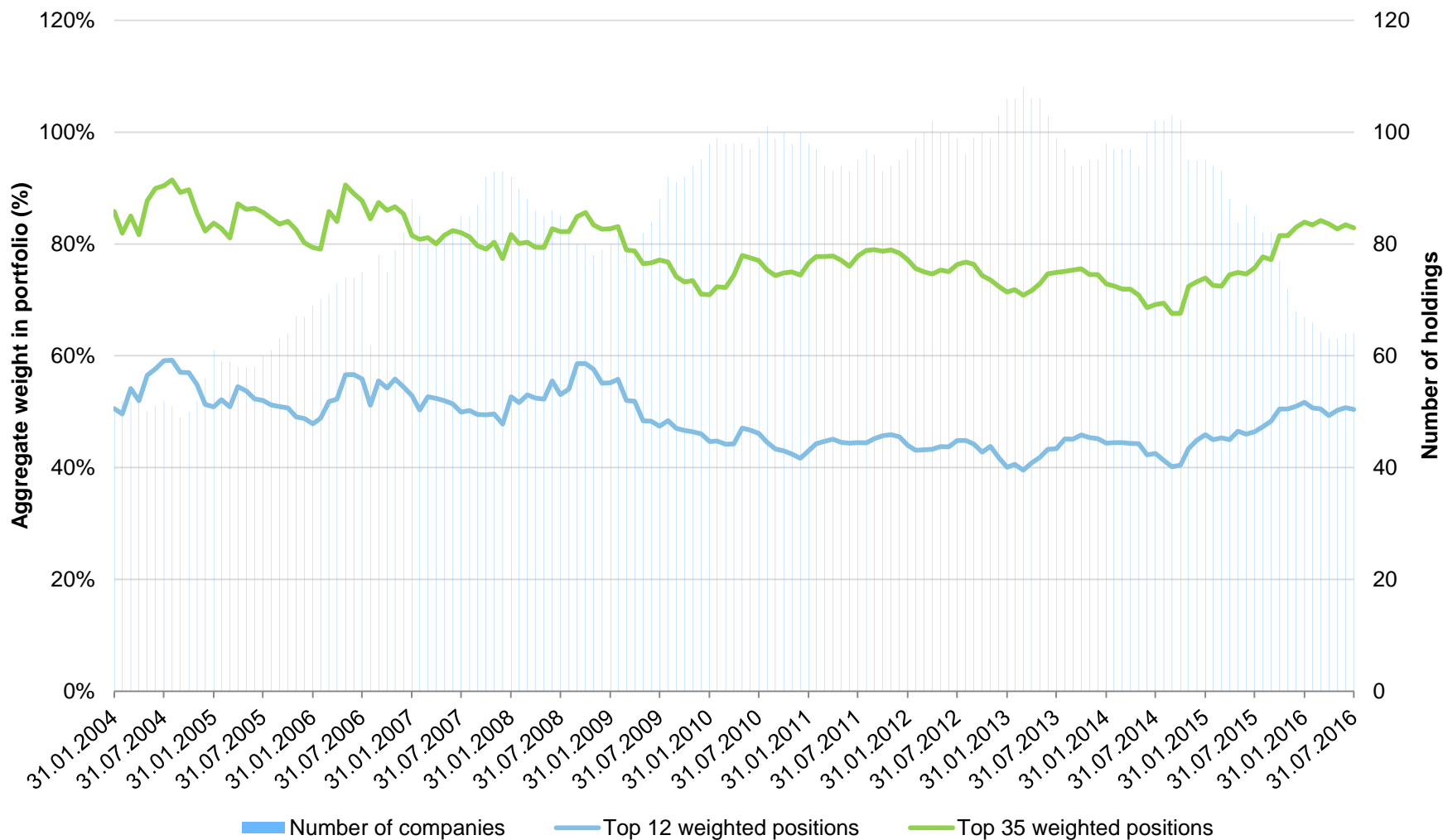
Top 12 positions, as of 31 July, 2016

# P/BV SKAGEN Kon-Tiki versus emerging markets



Top 12 positions, as of 31 July, 2016

# SKAGEN Kon-Tiki portfolio concentration

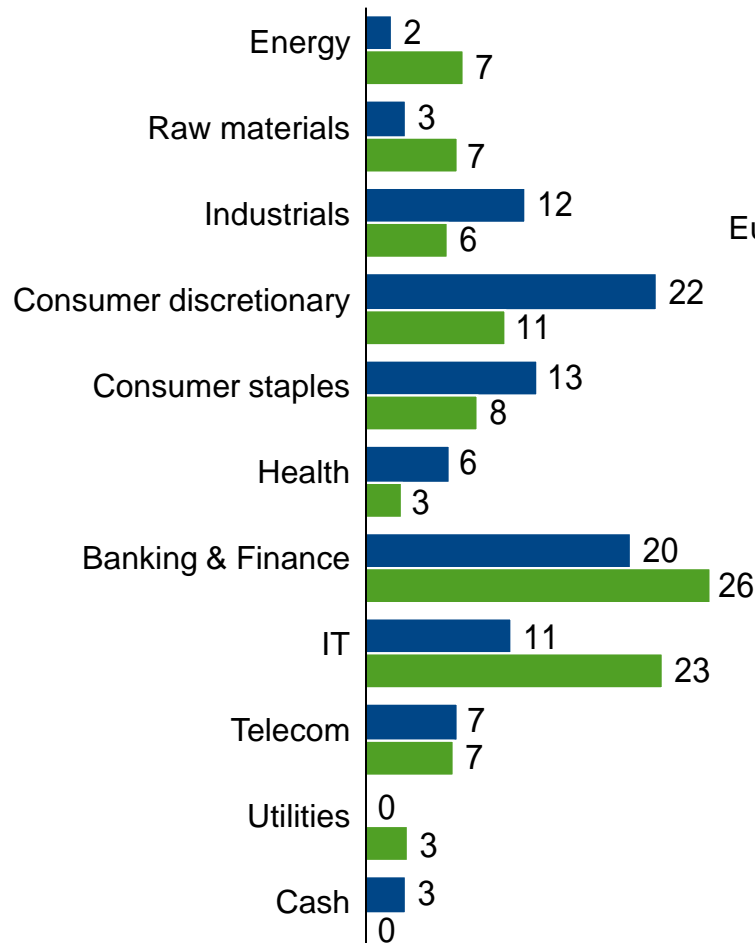


Source: SKAGEN AS as of 31 July 2016

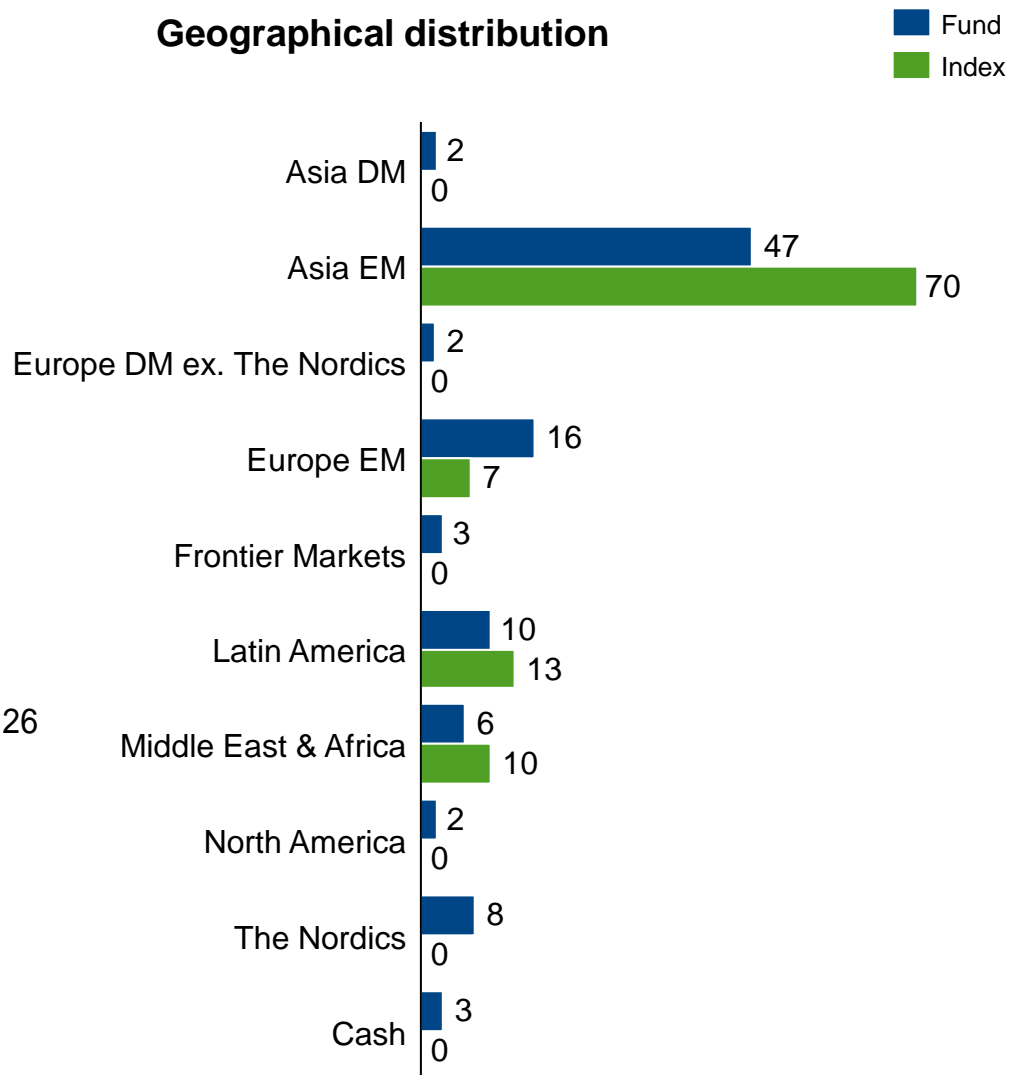


# SKAGEN Kon-Tiki sector and geographical distribution

## Sector distribution



## Geographical distribution



# Key earnings releases and corporate news, July 2016



Samsung  
Electronics  
(7.0% weight):

## Strong 2Q16 free cash flow (FCF) means more capital distribution to come

**Implications for Investment Case:** Positive. With a 9% beat to 2Q16 consensus expectations (prior to preliminary results) and constructive comments on 2H16 business outlook, we expect sell-side consensus estimates to continue its upward trend. Strong FCF means cash continue to pile up in the company despite having executed a buy-back of 6% of outstanding shares over a 12 months period and step up in dividend. Over the past 12 months, net cash has increased by KRW 14tr or KRW 100k per share. We expect management to announce further buy-backs following 3Q16 results due mid-October. In summary, we see four earnings drivers ahead; 1) NAND profitability and volumes strong driven by 3D NAND, 2) DRAM profitability bottoming and starting to improve in 2H16, 3) Display segment improving as OLED ramps external customers (Chinese smartphone OEMs and iPhone) and 4) strong smartphone profits, even if there may be some downside risk going into FY17.

**Event summary:** Final 2Q16 operating profit of KRW 8.14tr was in line with preliminary guidance and +22% year-on-year (YoY)/+18% quarter-on-quarter (QoQ). Net profit of KRW 5.85tr rose 2% QoQ and 11% YoY, despite losses on non-operating line. Earnings per share (EPS) was KRW 41k for 2Q16. This leaves 1H16 EPS at KRW 77k which is within our expectations of full-year earnings of KRW 140k, (backed by better 2H seasonality). Management was constructive on 2H16 outlook with favorable statements for all businesses.

**Unpopular:** Not among analysts, with 87% Buy. However, preference shares are still under-owned by local funds - we understand that current local mutual fund weight in Samsung is only 7% versus 13% allowance limit, which also creates local demand potential. Foreign capital going into EM equity products helps Samsung as the largest constituent with a 4.0% weight in MSCI EM index.

**Under-researched:** While 47 sell-side analysts cover the company, almost all tend to use a P/E and P/BV approach, failing to capture value of significant low-yielding cash position. This cash is now partially being returned to shareholders through KRW 11.4tr buyback and 30-50% of FCF in dividend/buyback on average for 2015-2017.

**Undervalued:** Yes. Based on a conservative sum-of-parts analysis, we calculate a value per share of KRW 1.8m. Of this, the semiconductor and handsets segments contributed KRW c550k each. The pref. share discount has narrowed from 22% to 18% post the buy-back announcement in October 2015. Assuming a 40% FCF distribution for FY17, Samsung should return close to KRW 9tr to shareholders versus current market cap of KRW 208tr which provides a yield of 4.3% overall and 5.1% for pref. shares. Our pref. share price target of KRW 1.6mil is based on a 10% discount to sum-of-parts or a c10% pref. share discount. This is conservative and, if anything, subject to upward revision. We note that 2Q16 RoE was 13% while P/BV for pref. share is 0.96x. Deducting low yielding cash from this, Samsung had post-tax capital return of 19% in 2Q16.

# Key earnings releases and corporate news, June 2016



Gedeon Richter  
(4.4% weight):

## 2Q16 Results in line with our expectations - negative FX masking underlying strength

**Implications for Investment Case:** The Hungarian pharma company delivered 2Q16 results which were within our expectations, with good growth from core product Esmya (a uterine fibroid treatment). There were however continued headwinds from a weaker Ruble. In the US, the company is starting to record milestone payments from key future product Vraylar, an anti-psychotic drug targeting bi-polar condition and schizophrenia.

Total revenues for 2Q16 were HUF 97.9bn, up 1.7% YoY and gross profit were HUF58.1bn, down 5% primarily due to negative FX translations and lower sales in CIS and the US, which continued seeing competition from generic products. Operating profit was HUF 13.2bn, down 16% due to negative currency movements and higher marketing expenses associated with the ramp-up in EU, China and Latin America. Net income of HUF 18.2bn declined 19% YoY although sequentially better.

During 1H, the Rouble depreciated 25% versus the Euro YoY, which significantly impacted Russia sales, which accounts for 25% of Richter's total revenues during the period. However, underlying growth is healthy and Russia sales jumped 16% YoY denominated in RUB. In the key domestic market, Richter 1H retail pharma products grew 5.8% YoY, outpacing industry growth of 4.6% YoY. Esmya 1H sales were EUR 31.1mil vs EUR 21mil last year and was a good contributor in Hungary, CIS and Spain. In 2Q, Vraylar's contribution of \$1.4mil is small, but the drug is targeting a large and growing market with the distribution machine of Allergan behind it.

**Unpopular:** While the stock is still dominated by Hungarian ownership, US investors increased their exposure during 2Q and their aggregated ownership now comprise 23% against a domestic ownership of 36%. Still CEE/Russia-focused sell-side coverage has 7 out of 10 analysts rating the stock a hold.

**Under-researched:** Yes. Vraylar is poised to be a major growth driver in the next few years, which means Richter's revenues and profits will be diversified away from Russia. As a result, consensus does not seem to factor in much value from either Vraylar or Esmya.

**Undervalued:** Yes. If they can ramp up sales of key products Esmya and Vraylar while expanding their higher margin reproductive health portfolio. The company is notorious conservative and is likely to keep guidance in check during the company call this month. The HUF 7500 price target (versus stock price 5910) is based on 19x FY17 P/E, which is reasonable for a pharma company with 18-20% earnings growth skewed towards markets outside Central Eastern Europe.



# The largest companies in SKAGEN Kon-Tiki

---



Samsung Electronics is one of the world's largest producers of consumer electronics, with over 155,000 employees. The company is global #1 in mobile phones and smartphones, the world's largest in TV and a global #1 in memory chips. Samsung also produces appliances, cameras, printers, PCs and air-conditioning units.

---



Hyundai Motor is the world's 4th largest car maker, including their 39% stake in Kia Motor. Sold 5m cars in 2015 and has a c5% global market share. Focus on smaller/less expensive cars. Strong position in several countries and in emerging markets such as India and China.

---



Mahindra & Mahindra is the largest manufacturer of utility vehicles in India (with a 50% market share) and tractors (40% market share). It has several listed subsidiaries including Tech Mahindra and M&M financial services (largest financier of utility vehicles and tractors in India).

---



Hungarian pharmaceutical company established in 1901 with focus on Central and Eastern Europe. Transitioning from generic-focused manufacturer to a more specialised one through higher margin, innovative products within its women's health division (Esmya) and nervous system treatments (Vraylar). Significant upside potential from US marketing approval of Vraylar and extended usage of Esmya is not reflected in the current valuation.

---



Turkey's leading and financial conglomerate in sectors including financial services, energy, cement, retail and industrials. The company has 10 companies currently listed on the Istanbul Stock Exchange and operates in 18 countries across Europe, the Middle East, Asia, North Africa and North and South America. Controlled by the Sabanci family.

---

## The largest companies in SKAGEN Kon-Tiki (continued)

---



Largest bank in India with 17% market share (c25% including 5 associate banks). Also presence in the life insurance, asset management and investment banking sectors. 15,000 branches, 32,000 ATMs, 400 mil+ accounts and over 220,000 employees. Upside potential from banking and economic reforms in India.

---



South African listed media and internet holding company incorporated in 1915. They have a strong Pay-TV business in South Africa and Sub-Saharan African countries and a fast growing internet division focused on commerce, communities, content, communication and games. They hold a 34% stake in Chinese Tencent and 29% of Russian Mail.ru.

---



ABB is a leader in power and automation technologies that enable utility and industrial customers to improve performance while lowering environmental impact. The group operates in around 100 countries and employs 146,000 people. Approximately 50% of sales stem from emerging markets and this share is rapidly increasing.

---



X5 is a leading Russian food retailer, operating through several retail formats: discount stores under the Pyaterochka brand, supermarkets under the Perekrestok brand, hypermarkets under the Karusel brand and convenience stores under different brands. Modern retail is gaining share in the Russian retail market, and X5 is well positioned with their formats in the current difficult trading environment. They are also in the middle of an aggressive expansion and refurbishment period.

---



Cosan is one of the largest Brazilian energy conglomerates with almost 80 years of history. Present within gas distribution, fuel distribution (5800 gas stations), convenience stores (950 stores at gas stations), sugar and ethanol production (24 mills with 68m ton crushing capacity), lubricants, land development and railways/logistics (25% market share of grain transportation for export).

---

# For more information please visit:

Our latest [Market report](#)

Information about [SKAGEN Kon-Tiki A](#) on our web pages

Unless otherwise stated, all performance data in this report relates to class A units and is net of fees.

Historical returns are no guarantee for future returns. Future returns will depend, inter alia, on market developments, the fund manager's skill, the fund's risk profile and subscription and management fees. The return may become negative as a result of negative price developments.

SKAGEN seeks to the best of its ability to ensure that all information given in this report is correct, however, makes reservations regarding possible errors and omissions. Statements in the report reflect the portfolio managers' viewpoint at a given time, and this viewpoint may be changed without notice. The report should not be perceived as an offer or recommendation to buy or sell financial instruments. SKAGEN does not assume responsibility for direct or indirect loss or expenses incurred through use or understanding of the report. Employees of SKAGEN AS may be owners of securities issued by companies that are either referred to in this report or are part of the fund's portfolio.