



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 – May 2016

The art of common sense

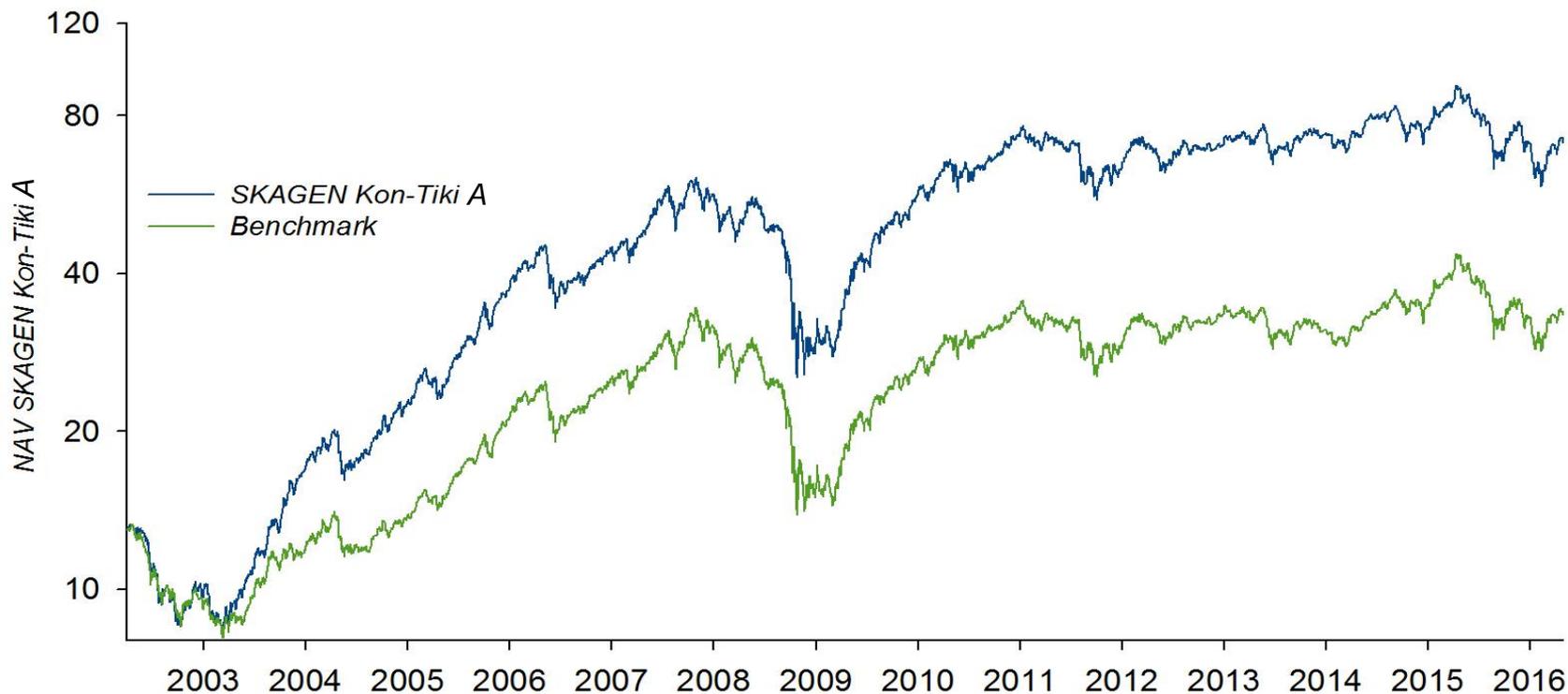


# Highlights – May 2016

- SKAGEN Kon-Tiki\* was down 0.2% in May, while the MSCI Emerging Markets Index was down 0.8% measured in EUR. Year-to-date, the fund is down 0.4% versus a 0.1% gain for the EM index.
- Emerging markets (-0.8%) underperformed developed markets (+3.4%) in May, after a strong outperformance in Q1. YTD the 0.1% gain in EM compares to a negative return of 0.4% for developed markets. The Philippines, Thailand and Taiwan were among the strongest markets in EM in May, while Turkey, Brazil and South Africa were major underperformers (although YTD they are still some of the strongest markets).
- Our top three performers in May were State Bank of India, Naspers and Richter. State Bank of India gained on the statement that they will explore the opportunity of acquiring their five associate banks as well as their full year results release which is giving hope that credit costs have peaked. Naspers, our South African-listed internet and pay TV conglomerate, followed Tencent upwards (their stake represents 120% of Naspers' market value) after positive comments from the company. Richter continued upwards after reporting 1Q16 results at the beginning of the month.
- Sabanci, Yazicilar and GPA were our three main detractors from absolute return during the month. Our Turkish holding companies Sabanci and Yazicilar were down with a weak Turkish market in general after both companies reported neutral results during the month. GPA, a Brazilian grocery and electronics retailer, was down after disappointing results. With implied values of less than 0.2x sales and 2x EBITDA for 2015 for the food operations, it is a steal, although the margins and earnings are unlikely to see a sharp rebound in the near term.
- Emerging markets continue to trade at a discount to developed markets, with a 2016e P/E of 12.2x and P/B of 1.4x for EM, compared with 17.1x and 2.1x for DM.
- The top 12 positions now represent more than 50% of the fund (from 45% at the beginning of 2015). In the same period we have reduced the number of positions in the fund from 95 to 63. The portfolio\*\* remains attractively valued at a 2016e P/E of 8.7x and P/B of 0.9x. We now see 48% upside for our portfolio over a 2-year horizon.

# Results, as of 31 May 2016

EUR, net of fees



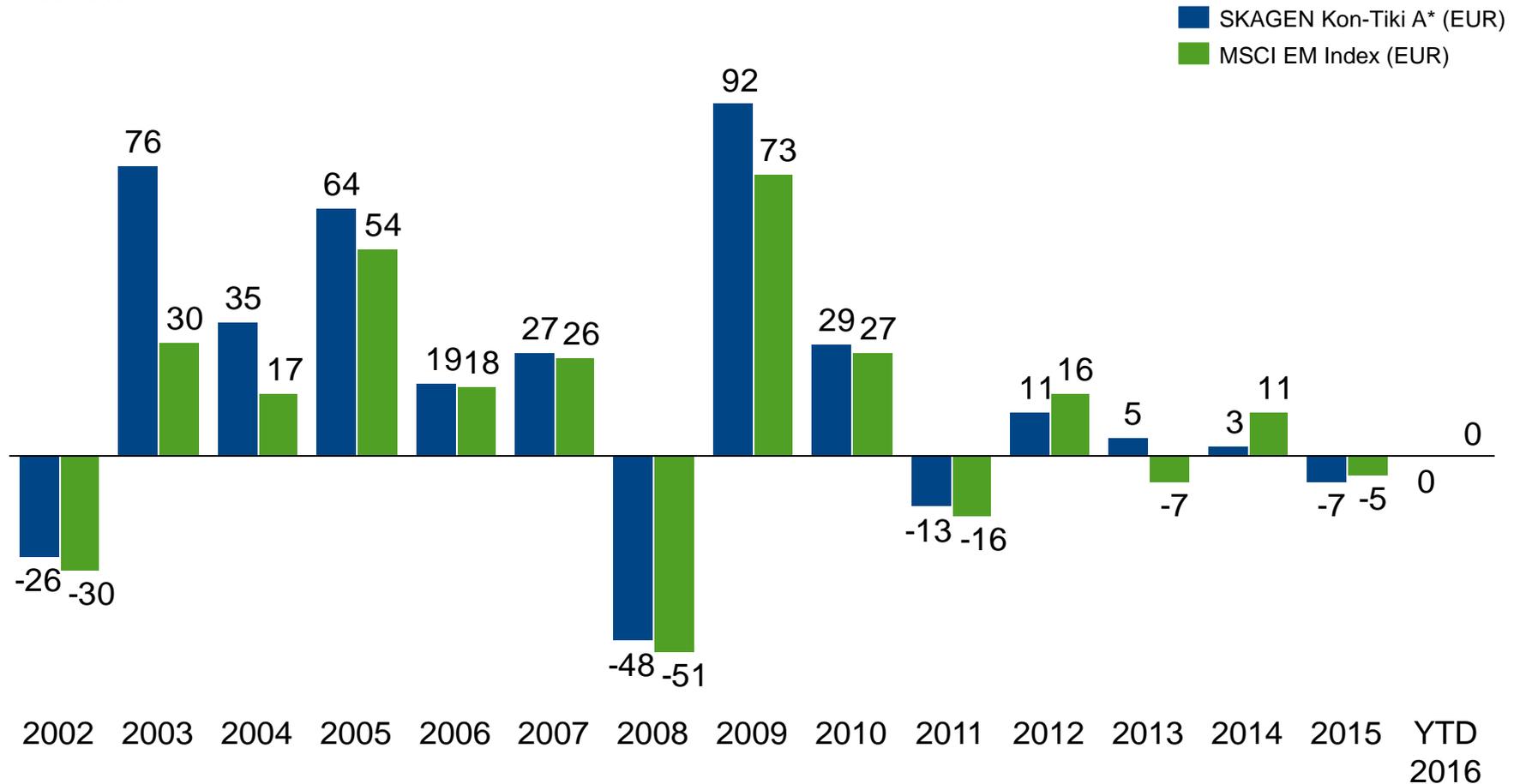
	May	QTD	YTD	1 year	3 years	5 years	10 years	Since inception*
SKAGEN Kon Tiki A	-0,2%	1,2%	-0,4%	-18,1%	-1,5%	-0,1%	6,3%	12,7%
MSCI EM Index	-0,8%	-0,8%	0,1%	-18,8%	0,1%	0,2%	4,6%	6,8%
Excess return	0,6%	2,0%	-0,5%	0,7%	-1,6%	-0,4%	1,7%	5,9%

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

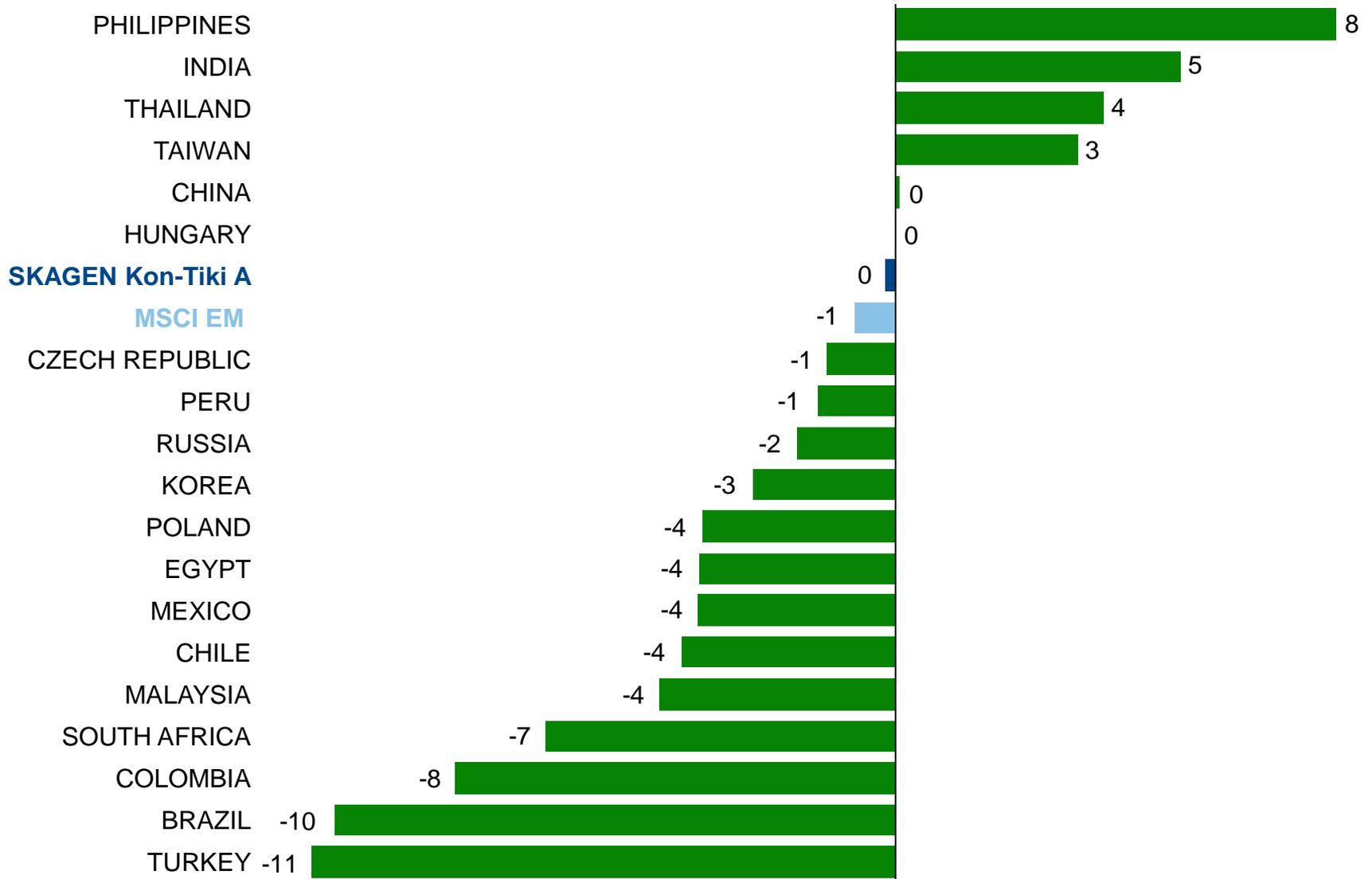


Note: All figures in EUR, net of fees

\* Inception date: 5 April 2002

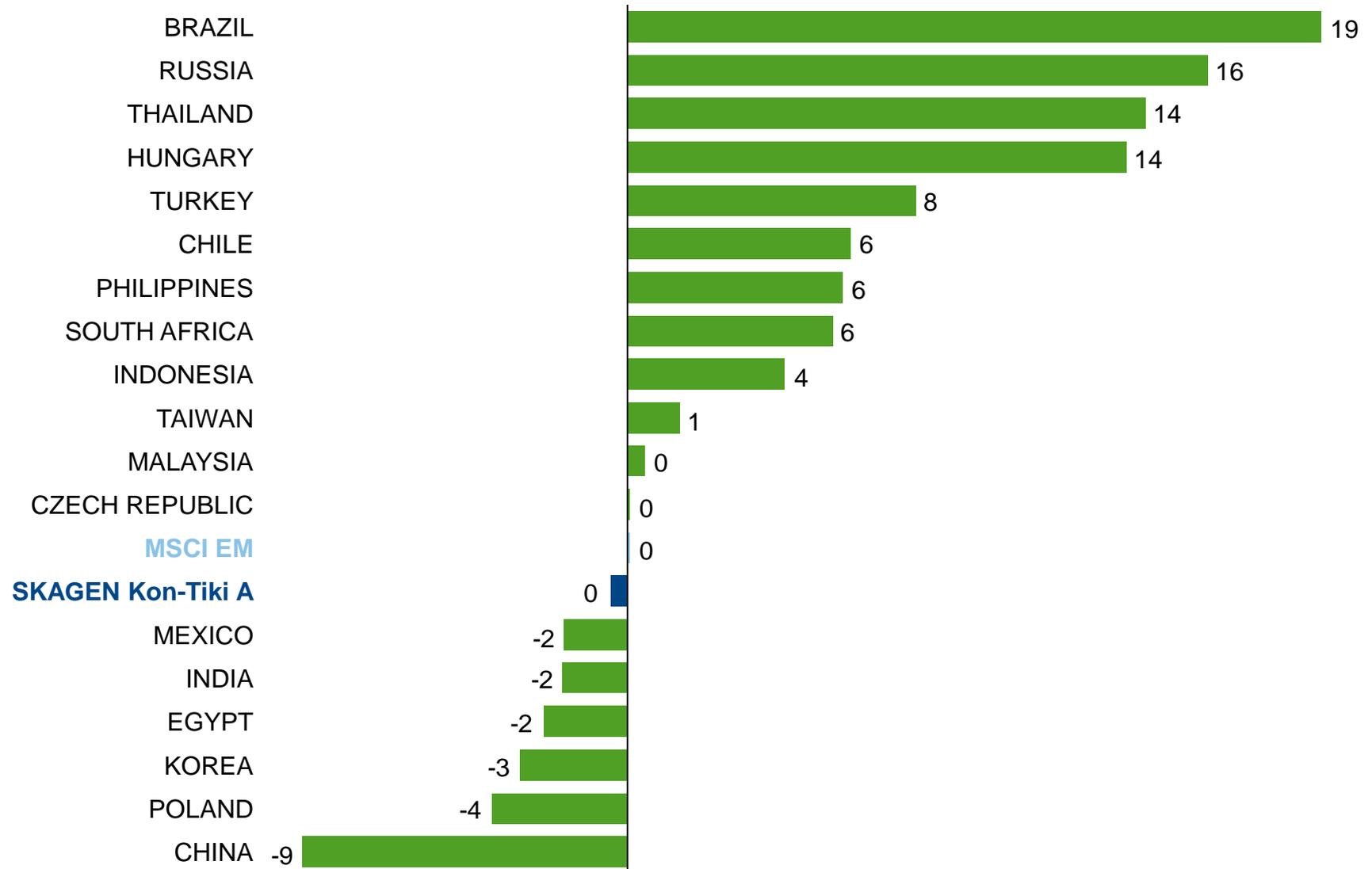
# Emerging markets, May 2016 (in EUR)

Percent



# Emerging markets, YTD 2016 (in EUR)

Percent



# Main contributors MTD 2016

## Largest positive contributors

<i>Company</i>	<i>NOK Millions</i>
State Bank of India	141
Naspers	103
Richter Gedeon	89
UPL	89
Tech Mahindra	72
Hyundai Motor	71
Moscow Exchange	71
Mahindra & Mahindra	53
Great Wall Motor	46
DIA	39

## Largest negative contributors

<i>Company</i>	<i>NOK Millions</i>
Haci Omer Sabanci	-175
Cia Brasileira de Distribuicao (GPA)	-101
Yazicilar Holding	-98
OCI Co	-63
Lenovo Group	-54
Tullow Oil	-49
China Shipping Development	-42
Enka Insaat ve Sanayi	-32
CNH Industrial	-30
Marfrig Global Foods	-29

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

**309**

*NB: Contribution to absolute return*

# Main contributors QTD 2016

## Largest positive contributors

<i>Company</i>	<i>NOK Millions</i>
Mahindra & Mahindra	170
UPL	149
Cosan	89
ABB	80
Tech Mahindra	69
State Bank of India	68
Naspers	66
Moscow Exchange	64
DIA	52
Rec Silicon	47

## Largest negative contributors

<i>Company</i>	<i>NOK Millions</i>
Samsung Electronics	-186
Hyundai Motor	-160
Haci Omer Sabanci	-126
Cia Brasileira de Distribuicao (GPA)	-98
LG Chem	-71
X5 Retail Group	-59
Korean Reinsurance	-56
Lenovo Group	-56
LG Electronics	-53
OCI Co	-45

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

**150**

*NB: Contribution to absolute return*

# Main contributors YTD 2016

## Largest positive contributors

Company	NOK Millions
Cosan	222
Banrisul	180
UPL	165
Moscow Exchange	129
JSE	109
Indosat	86
ABB	79
OCI Co	78
Haci Omer Sabanci	73
DRDGOLD	68

## Largest negative contributors

Company	NOK Millions
Frontline	-348
Samsung Electronics	-292
Great Wall Motor	-286
State Bank of India	-253
Hyundai Motor	-242
Lenovo Group	-166
LG Chem	-125
Kinnevik	-120
China Shineway Pharmaceutical	-86
Korean Reinsurance	-81

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

**-1184**

*NB: Contribution to absolute return*

# Holdings increased and decreased, May 2016

## Key buys during May

## Key sells during May

### UPL

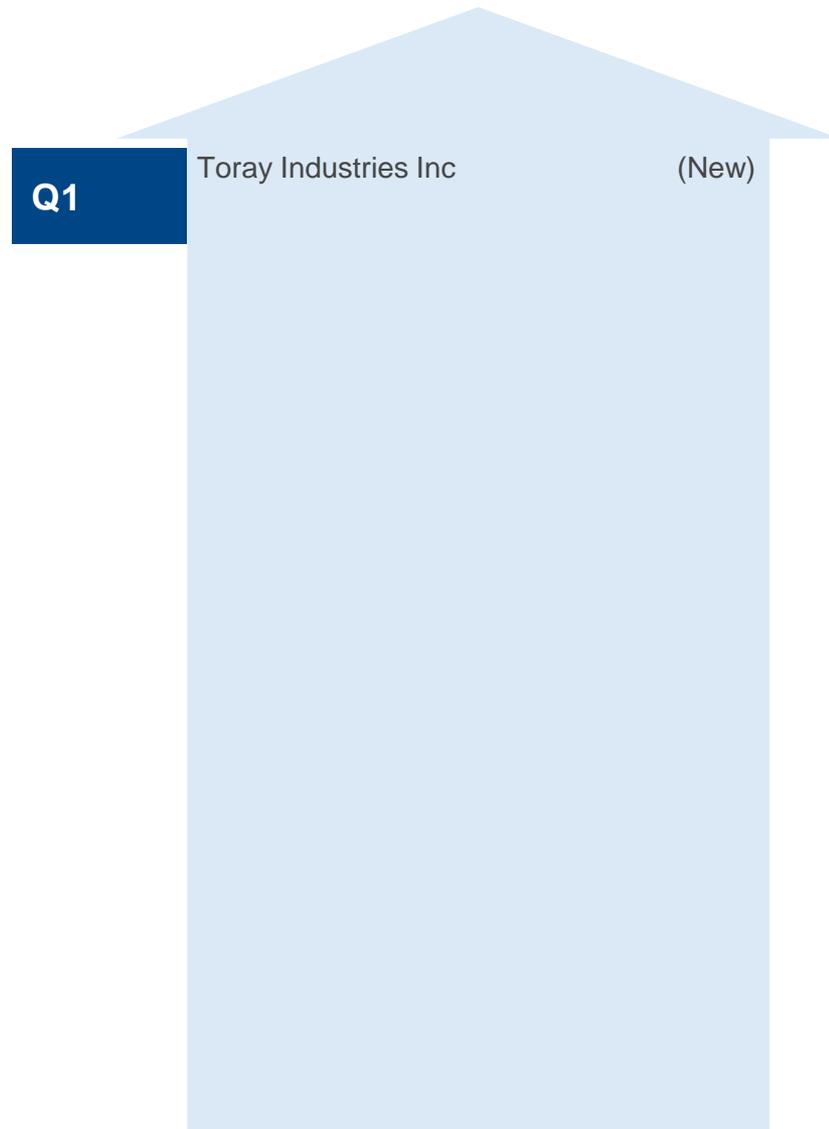
We took advantage of a strong share price to take some profit (up 55% since the end of February) after very strong 4Q results.

### DIA

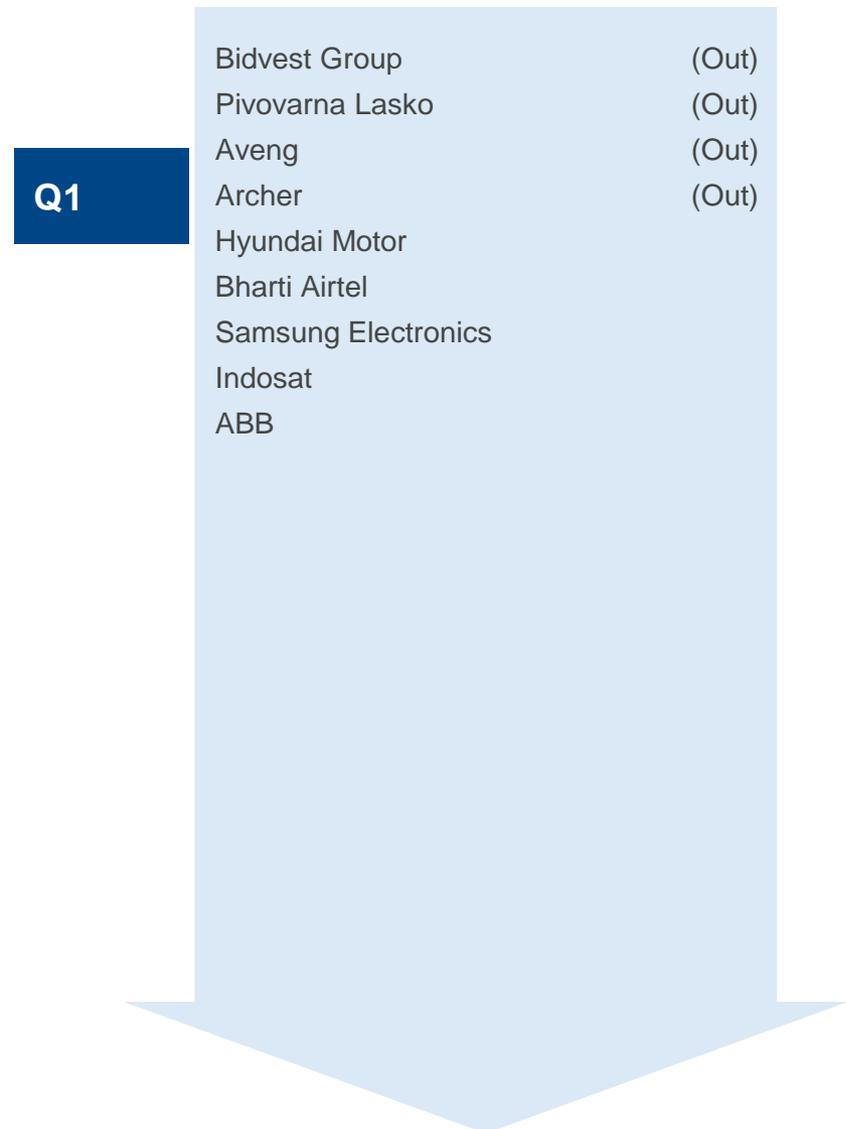
The share price reacted positively to strong 1Q16 results which gave us an opportunity to take some profit.

# Most important changes Q1 2016

## Holdings increased

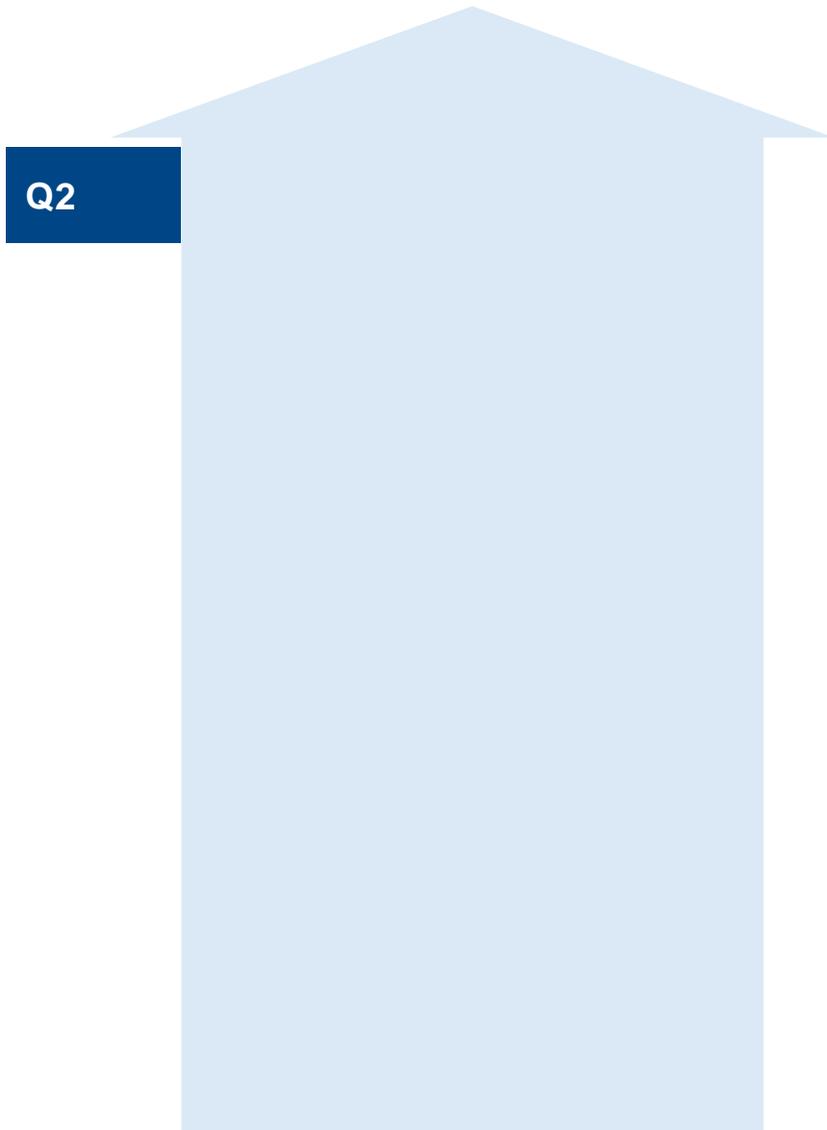


## Holdings reduced

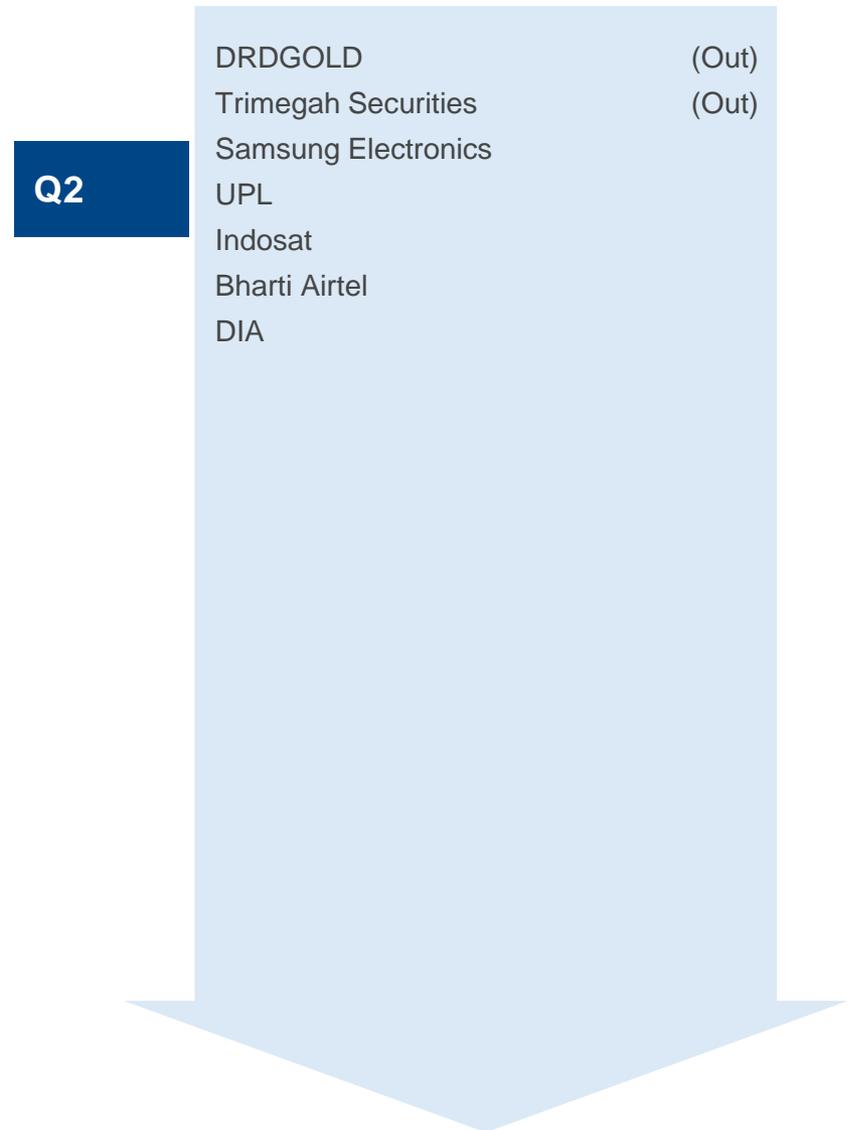


# Most important changes Q2 2016

## Holdings increased



## Holdings reduced

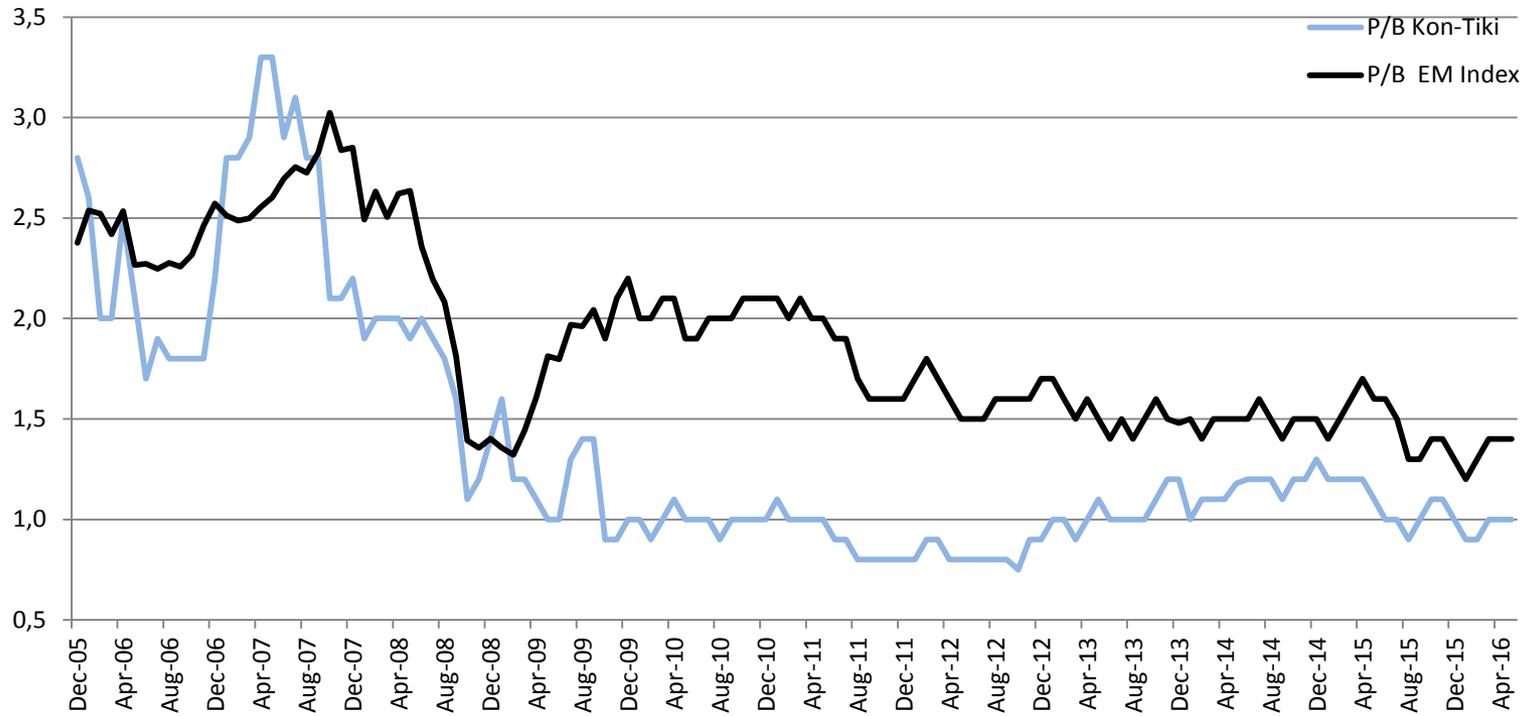


# Largest holdings SKAGEN Kon-Tiki, end of May 2016

	Holding size, %	Price	P/E 2015e	P/E 2016e	P/BV last	Div. yield 15e (%)	Price target	Upside %
Hyundai Motor	7,5	99 100	4,1	4,1	0,4	4,1	170 000	72
Samsung Electronics	7,4	1 062 000	8,3	7,6	0,8	2,0	1 600 000	51
Mahindra & Mahindra	5,5	1 322	24,4	17,6	2,7	0,9	2 000	51
Sabancı Holding	4,6	9,19	8,4	6,3	0,9	1,6	14	52
State Bank of India	4,4	205	12,8	7,6	0,9	1,3	265	29
Richter Gedeon	4,4	5 740	19,8	19,1	1,7	1,3	7 500	31
Naspers	3,5	2 309	46,2	30,8	12,0	0,3	2 500	8
ABB	3,3	174	17,8	16,6	3,1	3,7	200	15
Bharti Airtel	2,9	351	25,6	19,5	2,1	0,4	400	14
X5 Retail Group	2,5	19,6	17,5	13,0	3,1	0,0	25	28
Cosan Ltd.	2,3	5,45	8,9	9,6	0,4	0,0	10	83
SBI Holdings	2,1	1 157	7,2	8,3	0,6	3,9	3 000	159
<b>Weighted top 12</b>	<b>50,3</b>		<b>9,8</b>	<b>8,7</b>	<b>0,9</b>	<b>1,2</b>		<b>48</b>
<b>Weighted top 35</b>	<b>83,0</b>		<b>11,8</b>	<b>9,3</b>	<b>0,9</b>	<b>1,9</b>		<b>48</b>
<b>Emerging market index</b>			<b>14,5</b>	<b>12,2</b>	<b>1,4</b>	<b>3,0</b>		
<b>Top 35 @ price target</b>			<b>17,9</b>	<b>13,7</b>	<b>1,5</b>	<b>1,4</b>		

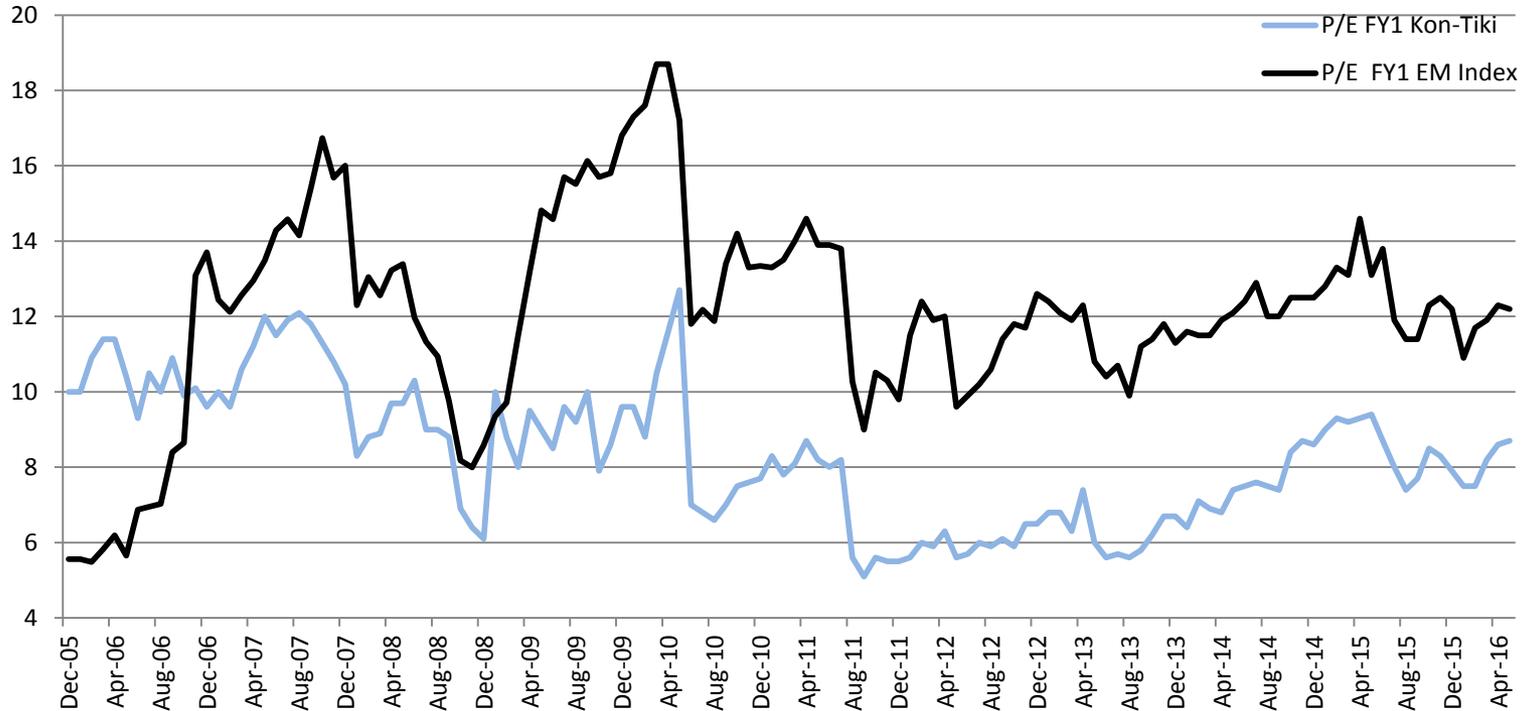
Note: Valuation estimates are based on SKAGEN Kon-Tiki's independent analysis and may vary from consensus estimates.

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



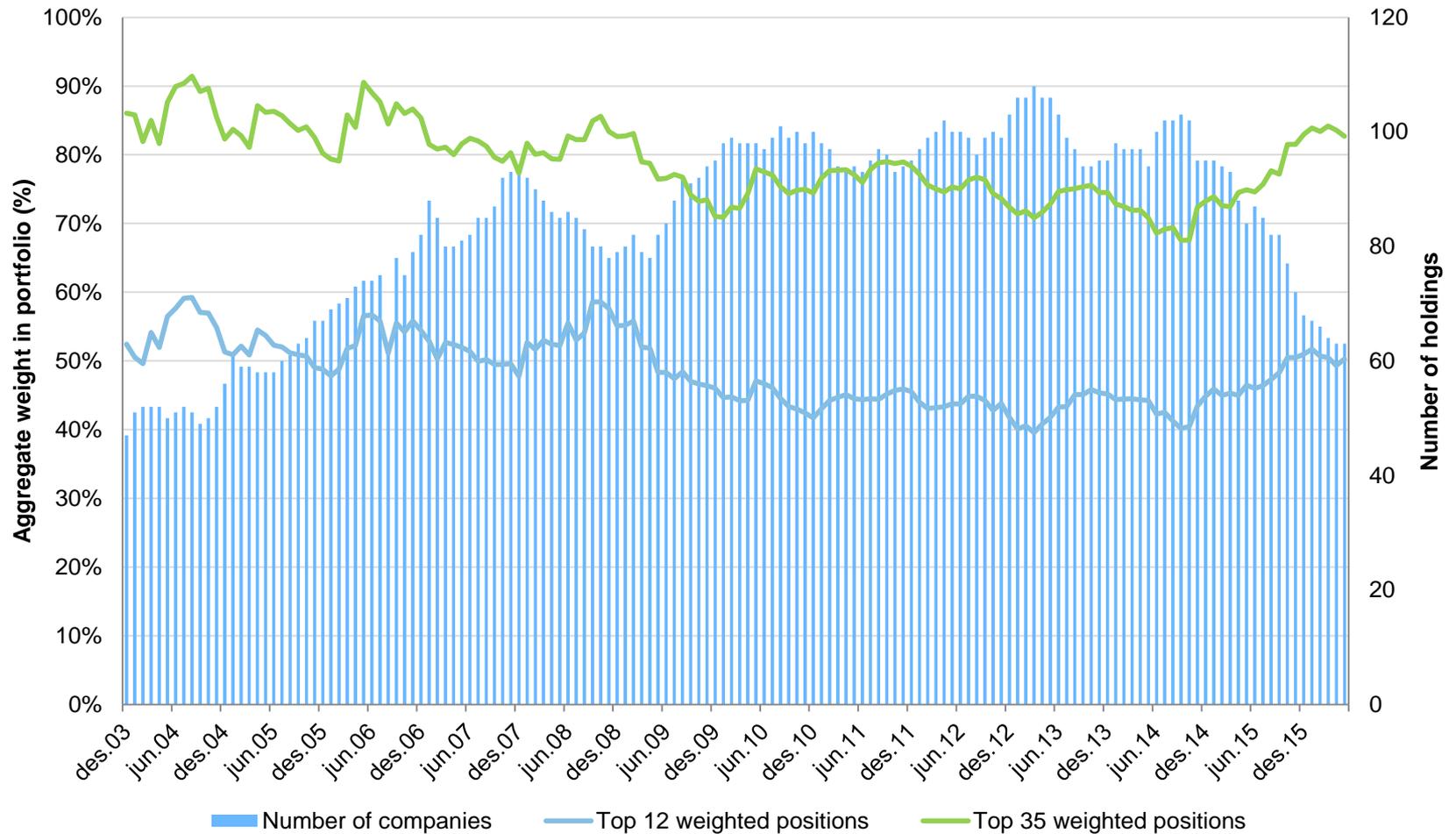
Top 12 positions, as of 30 April, 2016

# P/E SKAGEN Kon-Tiki versus emerging markets



Top 12 positions, as of 31 May, 2016

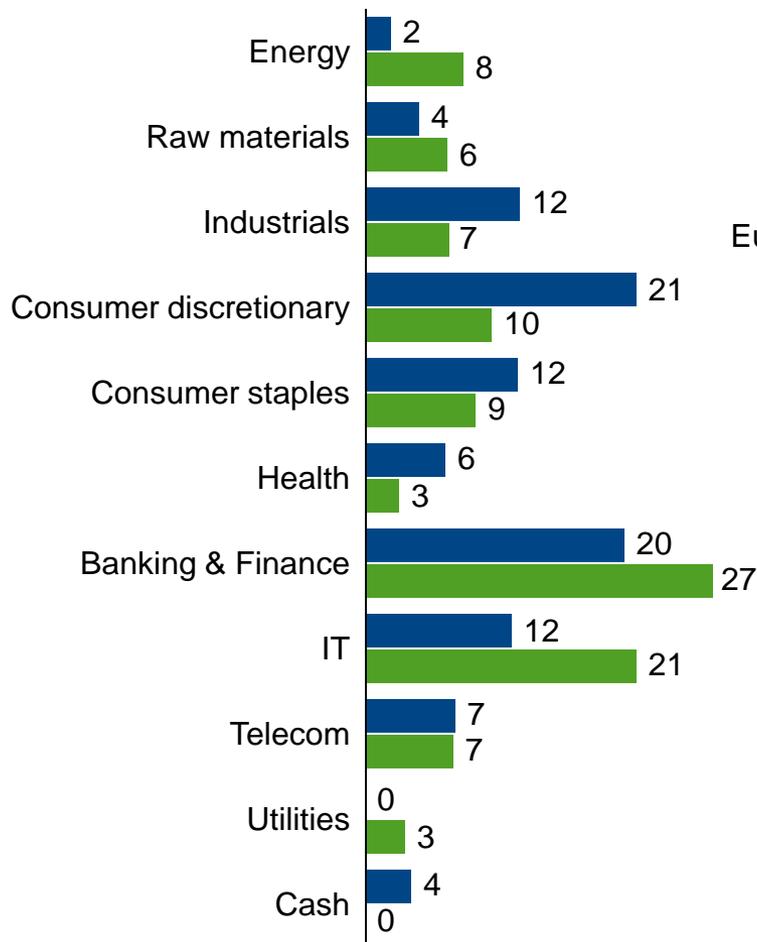
# SKAGEN Kon-Tiki portfolio concentration



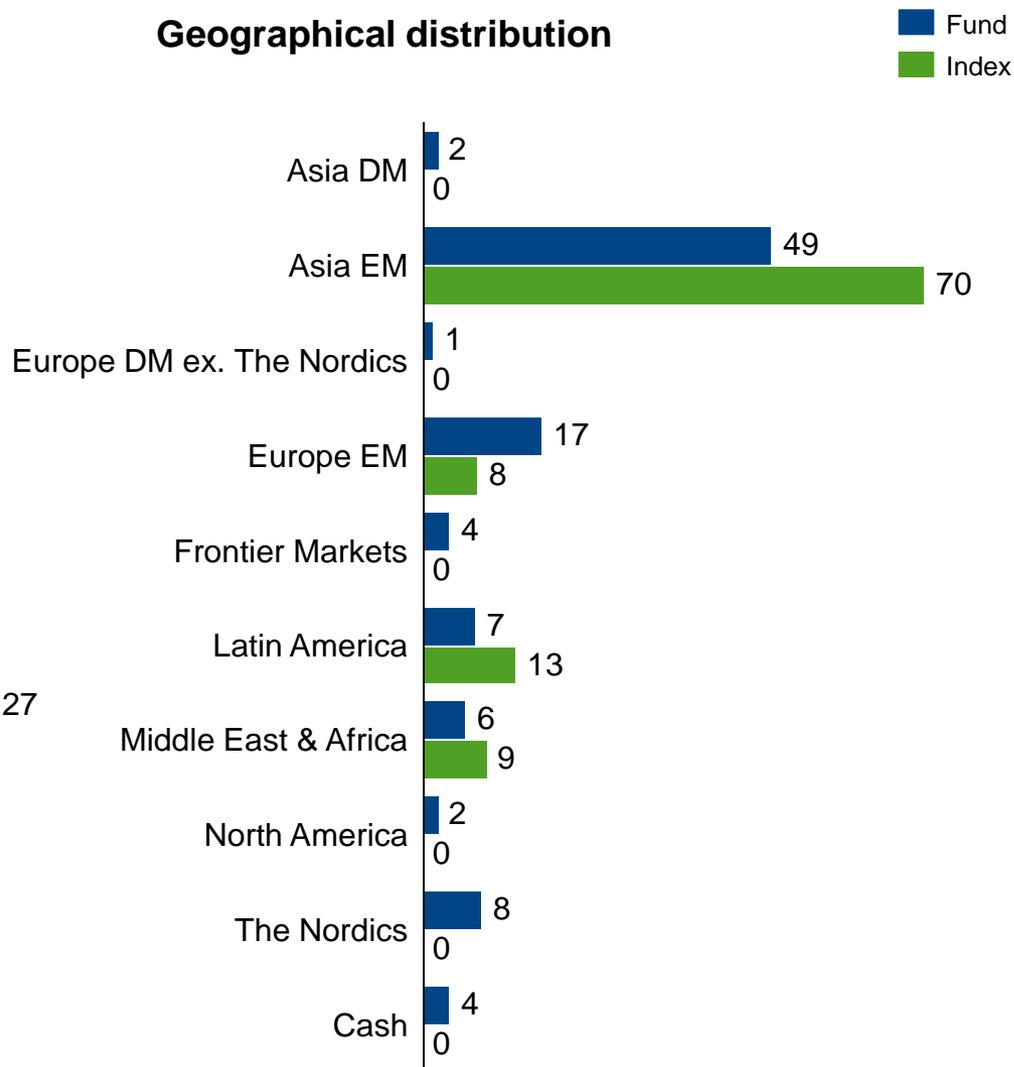
Source: SKAGEN AS as of 31 May 2016

# SKAGEN Kon-Tiki sector and geographical distribution

## Sector distribution



## Geographical distribution



# Key earnings releases and corporate news, May 2016

Sabancı Holding  
(4.6% weight):

## Steady progress in 1Q16

**Implications for Investment Case:** Neutral. Banking assets performing well. Cement and Industrials also good, but expect tailwind from FX and costs to diminish ahead. Retail operation does not seem to be an easy fix, but it is immaterial to total values. Speed of Energy progress seems to have stalled somewhat and FY16 guidance might be at risk.

**Event summary:** 1Q16 EBITDA of TRY 3.2bn was up 16% YoY and fuelled by a 31% YoY growth for Akbank (accounting for 44% of total, 43% of values). EBITDA for Energy (19% of values) rose 28% YoY to TRY 576m. This is a deceleration in improvement from 94% YoY growth in 4Q15 and +80% for FY15, which is partly due to an extraordinarily strong 1Q15 for retail business driven by one-off gains from collections and timing of cost allocations. However, we would have liked to see a better progress on self-help cost reductions. Cement (7% of values) EBITDA grew 11% YoY to TRY 154m and Industrials (14% of values) EBITDA of TRY 250m was up 25% YoY. For these business units, which is export oriented, results were helped by a weaker TRY versus key currencies, while lower input costs and freight costs also helped. The weak spot, as expected, was Retail with EBITDA of TRY 3m versus TRY 34m for 1Q15. Impact of sharp increase in minimum wages from 1 January as well as acquisitions of assets last year, diluted results. Excluding the latter, EBITDA declined 39% YoY to TRY 21m. Management revealed a detailed plan to improve profitability in the food retailing segment (9% of values). Adjusted for non-recurring items, net profit of TRY 673m rose 29% YoY. Holding net cash of TRY 1,044m rose from TRY 550m at year-end due to dividends from subsidiaries.

Management maintains its FY16 guidance of non-bank recurring EBITDA +20-30% YoY versus only +7% YoY for 1Q16. This requires a step up in profit growth for Energy. FY16 guidance of EBITDA up 40-50% might prove slightly ambitious as management now says 1Q16 result is “somewhat in line with expectations”.

**Unpopular:** No, not with 91% Buy and the rest Hold, but the investor community seems to have a more muted view, likely due to high perceived Turkey risk and lack of understanding of the positive regulatory changes for Energy.

**Under-researched:** No, not with 22 analysts covering a USD 6.4bn market cap. company, but analysts tend to be less dynamic focusing mainly on a static sum-of-parts valuation, which in itself, however, provides support versus history.

**Undervalued:** Yes, discount to NAV of 38% is unchanged from year-end, meaning 13% return has been driven by asset appreciation. Closest peer Koc Holding trades at a 5% discount to NAV. The argument we have heard for this is that 90% of NAV for Koc is in listed assets while the proportion in Sabancı is 70%. If so, the IPO of Energy assets, scheduled for FY17, should be a catalyst taking listed share to 88%. The current discount is also high versus a 3y average of c25% and 2y average of c30%. Furthermore, underlying assets should have re-valuation potential. Akbank has a strong balance sheet and has improved operational efficiency with cost/income of 36% in 1Q16. At P/E of 7.5x for 2016e and 14-15% RoE, we find a P/BV of 1.1x quite attractive. Falling inflation, from 9.6% in January to 6.6% in April is supportive and should allow for a further cut in policy rates, which would reduce return requirement. However, recent political turmoil weighs in the other direction, increasing the country risk premium. Our TP of TRY 13 versus share price of TRY 9.2 has been based on 2y forward NAV discount of 30%. With overall strong asset performance and forthcoming Energy IPO, this seems somewhat conservative.

# Key earnings releases and corporate news, May 2016 (cont.)

UPL  
(2.2% weight):

## 4QFY16 results show strong volume growth and margin improvement

**Implications for Investment Case:** Clear positive. 25% volume growth in the current agricultural environment is very impressive. To illustrate the level of outperformance, compare with market leader Syngenta at -4% in the quarter. Another comparison is the c9% decline in the global crop protection market during CY2015. Overall, results confirm our core investment case of market share-driven top line growth and margin improvement from scale and product mix. The third pillar of our thesis, re-rating, has largely run its course, but UPL remains reasonably attractive at 12m forward EV/EBIT of 10x.

**Event summary:** 4QFY16 revenue +20% YoY, driven by volumes +25%, pricing +1% and FX -6%. EBITDA was up 25% on higher gross margin and cost control, while EBIT increased 21% YoY due to higher D&A. Latin America recorded an outstanding 57% YoY sales growth, North America a strong 13%, Europe +8% and India +4%. Net working capital days increased somewhat (to 91), but are still at the lower end of the company's targeted range. For the full-year, UPL recorded 10% sales growth (+18% in constant currency) and a 14% increase in EBIT.

**Unpopular:** No. 96% of sell-side analysts now have a buy rating.

**Under-researched:** ~25 active analysts, but smallish size (USD 3bn market cap) means company is likely slightly below the radar of large international investors.

**Undervalued:** Less so than before, but EV/EBIT 10x for a ~10% top line grower with margin potential remains quite attractive.

# The largest companies in SKAGEN Kon-Tiki

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Hyundai Motor is the world's 4th largest car maker, including their 39% stake in Kia Motor. Sold 4.9m cars in 2014 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.

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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.

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Mahindra & Mahindra is the largest manufacturer of utility vehicles in India (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).

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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.

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Largest bank in India with 17% market share (c25% including 5 associate banks). Also presence in life insurance, asset management and investment banking. 15,000 branches, 32,000 ATMs, 130 million customers and over 220,000 employees. Largest Indian overseas bank with 190 offices in 34 countries.

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



Hungarian pharmaceutical company established in 1901 with focus on CEE. Transitioning from generic-focused to more specialised through higher margin, innovative products within its women's health division (Esmya) and nervous system treatments (Cariprazine). Significant upside potential from US marketing approval of Cariprazine and extended usage of Esmya is not reflected in the current valuation at 30-40% discount to peers.



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.



Bharti Airtel is India's largest private integrated telecom company, and it is a leading global player (#4) with operations in 20 countries across Asia and Africa. They had around 287m customers across their operations at the end of June 2014. They separated out towers into a part-owned unit (passive infrastructure). Bharti family and SingTel own 30% each.



X5 is a leading Russian food retailer, operating through several retail formats: discount stores under the Pyaterochka brand, supermarket chain under the Perekrestok brand, hypermarket chain 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.

# 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.

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