



The ship at Skagen Reef, 1892, Dela. By Carl Locher, one of the Skagen Painters. This image belongs to the Art Museums of Skagen.

# SKAGEN Kon-Tiki

## Status Report - February 2017

The art of common sense



# Summary – February 2017

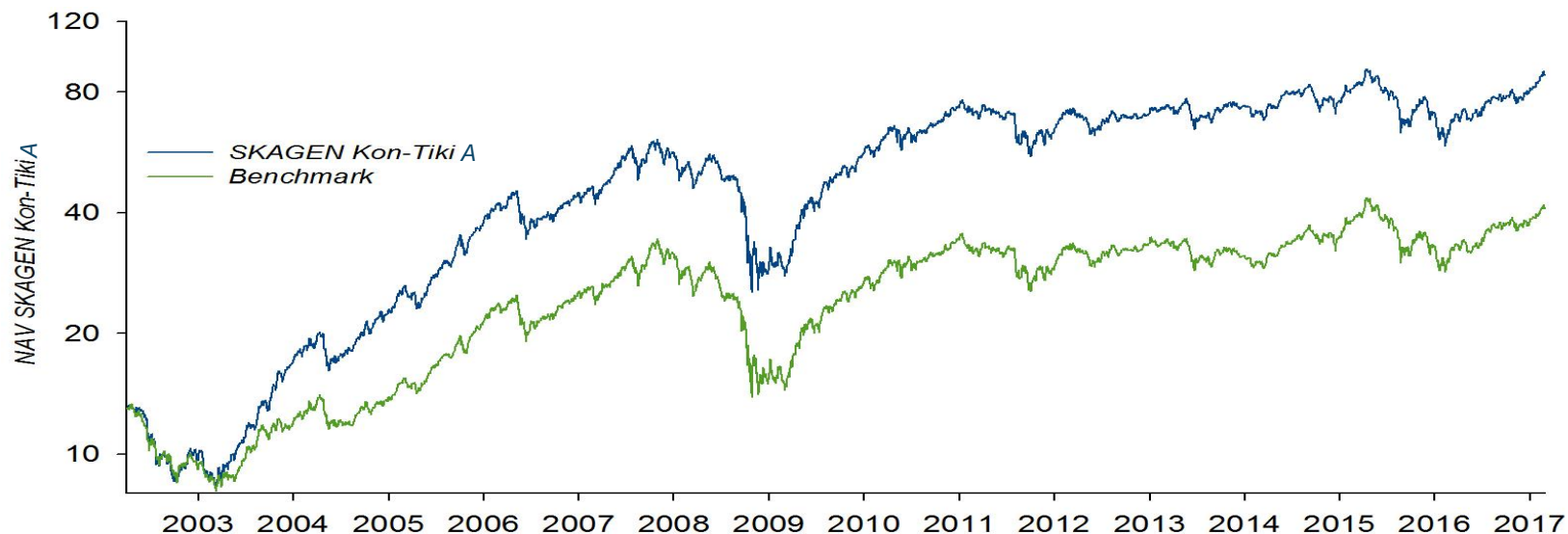
- SKAGEN Kon-Tiki\* was up 4.9% in February measured in EUR, outperforming the MSCI Emerging Markets Index which was up 4.4%.
- Our top three contributors in February were Korean and Chinese automakers Hyundai Motor and Great Wall Motor, and Brazilian bank Banrisul. Hyundai Motor is rising from very low levels, as evidenced by a cash adjusted P/E of only 1.2x for our preference shares. We believe operations will improve after a tough stretch, and that the share price will follow. Great Wall reported preliminary results at the upper end of guidance and also announced volume guidance for 2017 of +16% YoY, which is well above industry estimates (+5%). As we reported last month, Banrisul's share price rally has been fuelled by speculation about a possible privatisation of the regional government's 57% stake.
- The major detractors for the month were Russian grocery retailer X5, South Korean electronics giant Samsung Electronics and London-headquartered exploration and production company Tullow Oil. Both X5 and Samsung have been very strong over the past year, up 75% and 72% (in EUR), respectively. We see no particular reason for the recent X5 weakness, while at Samsung the arrest of family heir Jay Y. Lee has dominated headlines lately.
- Emerging markets continue to trade at a discount to developed markets, with a 2017e P/E of 12x and P/B of 1.4x for EM, compared with 17x and 2.3x for DM.
- The top 12 positions account for 50% of the fund, and the top 35 account for 84%. The portfolio\*\* remains attractively valued at a 2017e P/E of 9.5x and P/B of 1.0x. We currently see a 35% upside for our portfolio over a two-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.

# SKAGEN Kon-Tiki A results, February 2017

EUR, net of fees



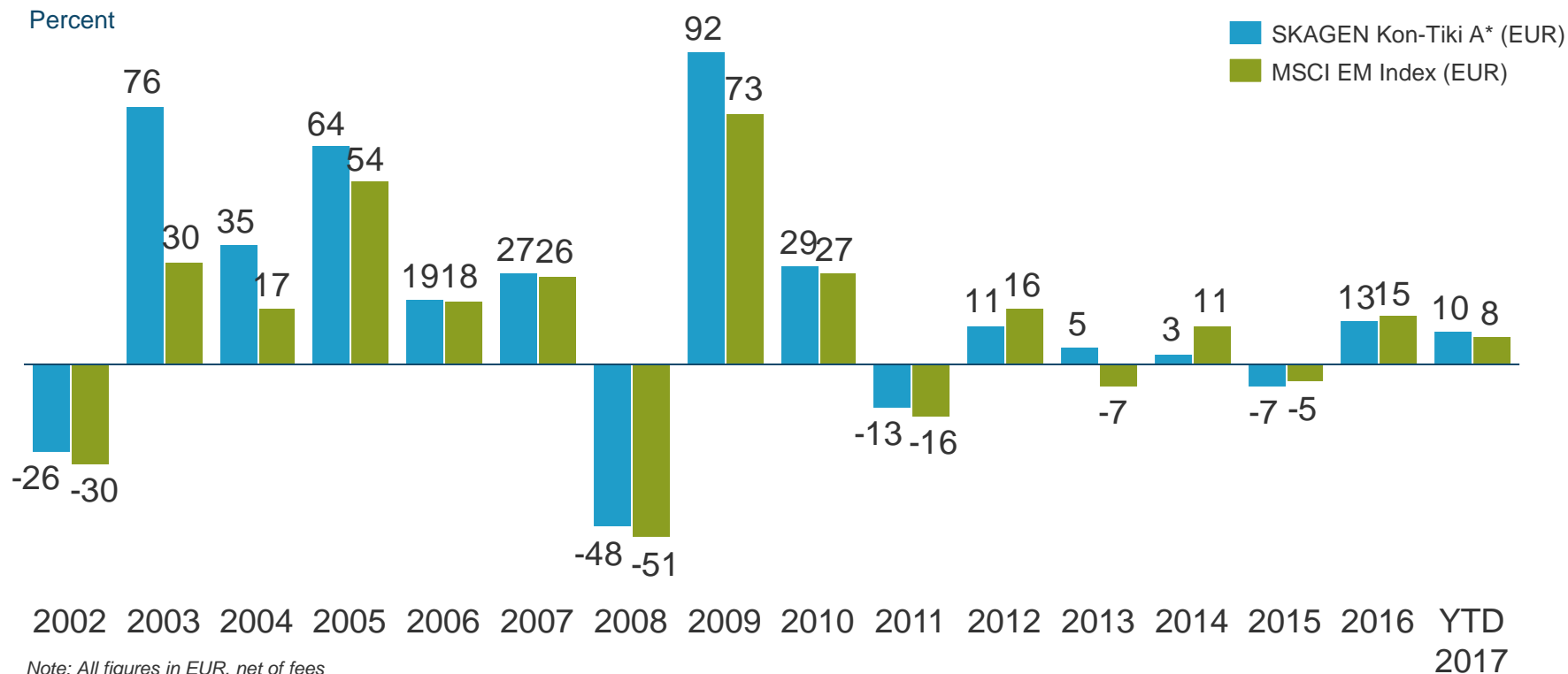
	February	QTD	2016	1 year	3 years	5 years	10 years
SKAGEN Kon-Tiki A	4,9%	9,6%	12,9%	36,1%	7,0%	4,0%	7,1%
MSCI EM Index	4,4%	8,1%	14,6%	32,6%	10,7%	4,4%	5,1%
Excess return	0,5%	1,5%	-1,7%	3,5%	-3,7%	-0,3%	2,0%

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

\* Inception date: 5 April 2002

# Annual performance since inception\*

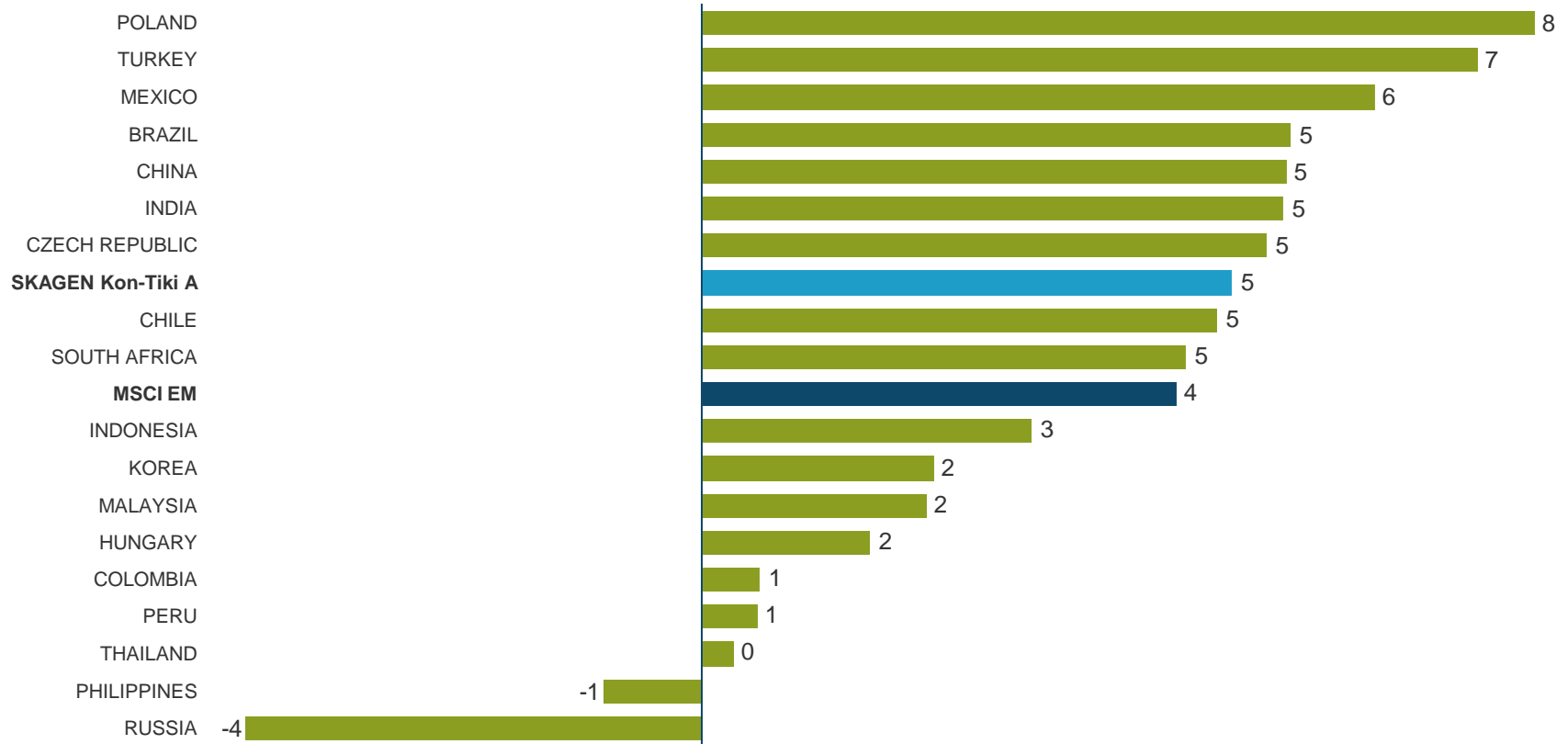
## SKAGEN Kon-Tiki A has beaten the index in 11 out of 15 years



Note: All figures in EUR, net of fees

\* Inception date: 5 April 2002

# Emerging markets in February 2017, EUR (%)



# Main contributors February 2017

## Largest positive contributors

Company	NOK Millions
Hyundai Motor	202
Great Wall Motor	155
Banrisul	101
Samsung SDI	87
Mahindra & Mahindra	86
Rumo Logistica Operadora	85
Haci Omer Sabanci Holding	80
Cosan	70
Tech Mahindra	68
State Bank of India	60

## Largest negative contributors

Company	NOK Millions
X5 Retail Group	-92
Samsung Electronics	-26
Tullow Oil	-21
Lenovo Group	-18
China Shineway Pharmaceutical	-17
Borr Drilling Ltd	-10
Sistema	-6
Diamond Bank	-6
Deep Sea Supply	-5
Bollore	-5

**Value Creation MTD (NOK MM): 1622**

*NB: Contribution to absolute return*

# Main contributors YTD 2017

## Largest positive contributors

Company	NOK Millions
Barrisul	451
Great Wall Motor	178
Samsung Electronics	176
Rumo Logistica Operadora	162
Hyundai Motor	135
Samsung SDI	118
Cosan	113
Mahindra & Mahindra	95
Bharti Airtel	86
Naspers	83

## Largest negative contributors

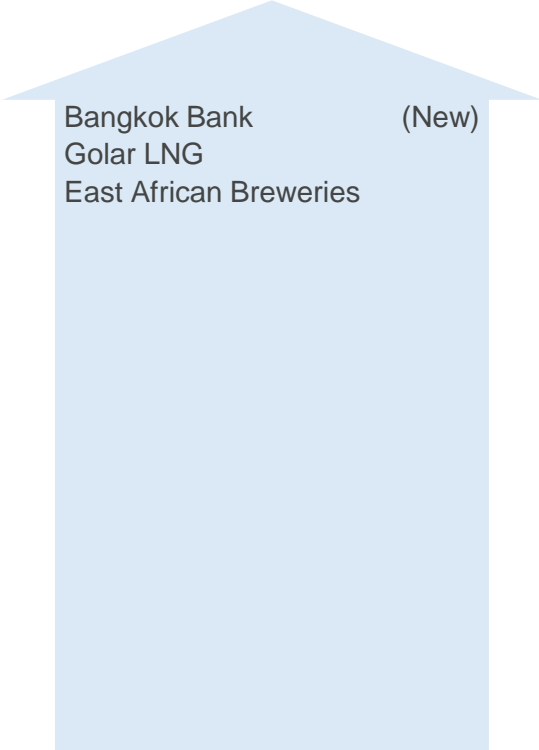
Company	NOK Millions
X5 Retail Group	-105
Tullow Oil	-47
China Shineway Pharmaceutical	-28
Norwegian Air Shuttle	-17
East African Breweries	-13
Lenovo Group	-9
Marfrig Global Foods	-8
Diamond Bank	-5
Enka Insaat	-4
Sistema	-3

**Value Creation YTD (NOK MM): 2289**

*NB: Contribution to absolute return*

# Most important changes Q1 2017

## Q1 Holdings increased



Bangkok Bank (New)  
Golar LNG  
East African Breweries

## Q1 Holdings reduced



ABB (Out)  
China Shipping (Out)  
Development  
Euronav (Out)  
Frontline (Out)  
Richter Gedeon  
Samsung Electronics  
Kiatnakin Bank  
Mahindra & Mahindra  
X5 Retail Group  
Banrisul  
Bharti Airtel  
Hyundai Motor



# Holdings increased and decreased – February 2017

## Key buys

- **Golar LNG:** We like that the financing situation has now been resolved, and see multiple catalysts on the horizon. As a result we added to our position during February.
- **Bangkok Bank:** We continued to add to our newly initiated position in Bangkok Bank as we like the risk reward on offer.

## Key sells

- **ABB (Out):** We sold the remainder of our position as it reached our target price.
- **Kiatnakin:** We reduced the position on strength.
- **Mahindra & Mahindra:** We trimmed our position to re-invest the funds in opportunities with more attractive risk reward.
- **Banrisul:** We used the strong share price following the government stake sale speculation to reduce our position.

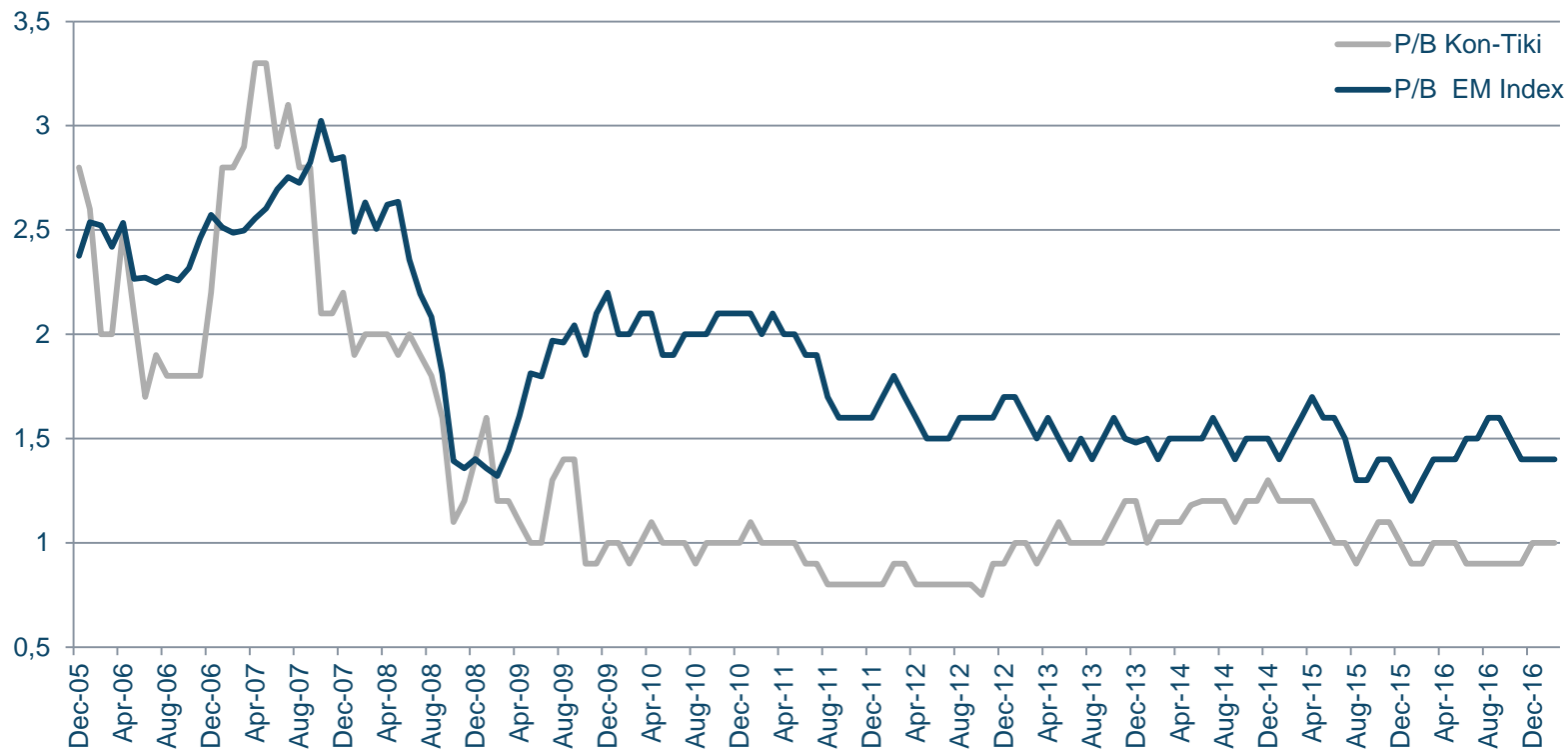
## Largest holdings in SKAGEN Kon-Tiki

	Holding size, %	Price	P/E 2016e	P/E 2017e	P/BV last	Div. yield 15 (%)	Price target	Upside %
Hyundai Motor	7.4	97 900	4.6	3.9	0.4	4.1	170 000	74
Samsung Electronics	6.8	1 496 000	9.3	6.0	1.1	1.4	1 900 000	27
Naspers	4.6	153	33.9	23.5	5.9	0.3	218	43
Sabancı Holding	4.2	10.1	7.7	6.3	0.9	1.5	14	39
Mahindra & Mahindra	3.9	1 312	17.5	13.8	2.7	0.9	2 000	52
Richter Gedeon	3.8	6 485	21.6	17.8	1.8	1.1	7 500	16
Cosan Ltd.	3.6	27.2	9.1	7.8	1.1	1.3	33	20
X5 Retail Group	3.4	1 866	17.9	14.4	4.1	0.0	2 391	28
Banrisul	3.2	16.6	10.3	8.3	1.1	4.9	18	8
State Bank of India	3.1	269	17.9	12.2	1.0	1.0	350	30
SBI Holdings	2.9	1 572	9.8	10.5	0.9	2.9	2 500	59
Great Wall Motor	2.6	9.54	7.4	6.7	1.6	3.5	11	15
<b>Weighted top 12</b>	<b>49.5</b>		<b>9.6</b>	<b>7.7</b>	<b>1.0</b>	<b>1.3</b>		<b>37</b>
<b>Weighted top 35</b>	<b>83.7</b>		<b>14.1</b>	<b>9.5</b>	<b>1.0</b>	<b>1.6</b>		<b>35</b>
<b>Emerging market index</b>			<b>14.0</b>	<b>11.8</b>	<b>1.4</b>	<b>2.5</b>		
<b>Top 35 @ price target</b>			<b>15.9</b>	<b>13.3</b>	<b>1.5</b>	<b>1.3</b>		

As of 28 February 2017

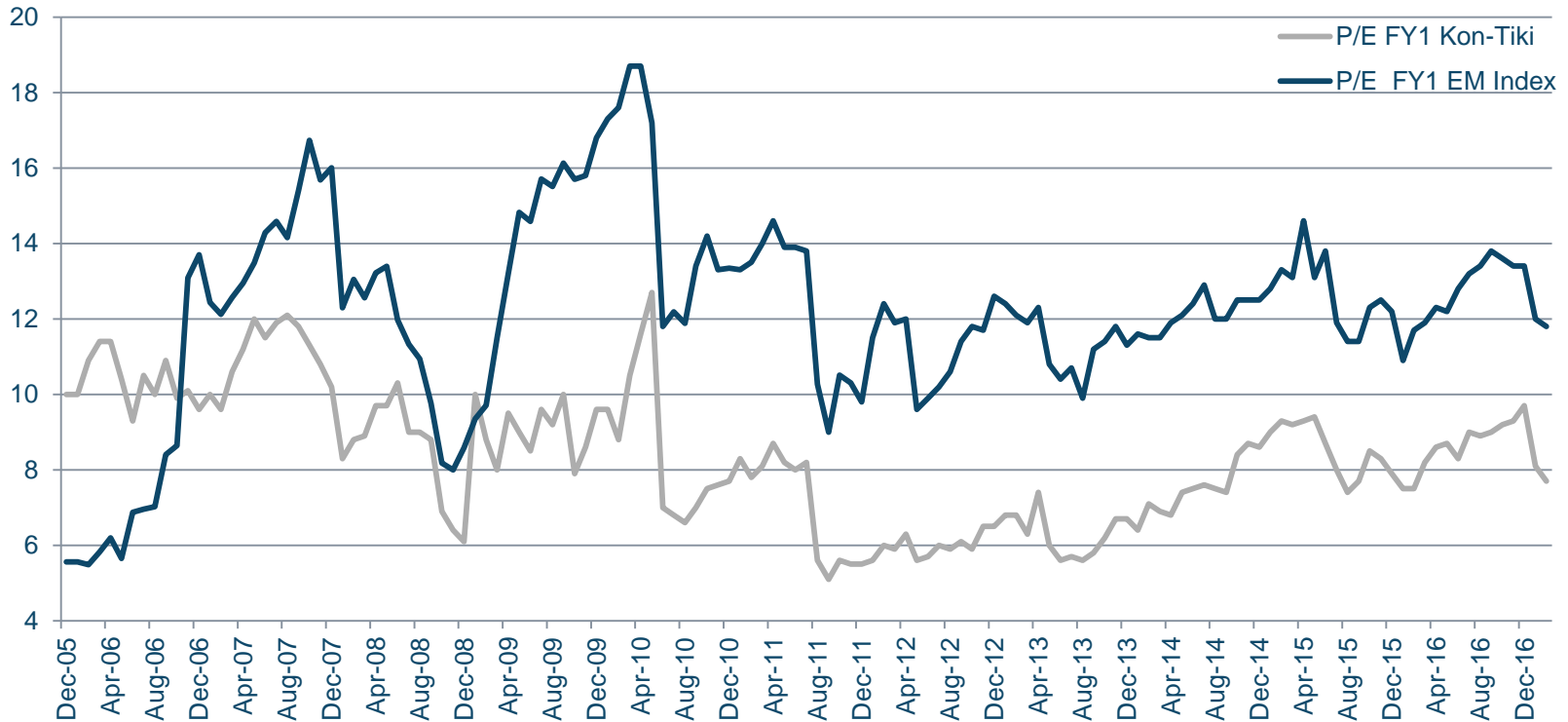
Note: Valuation estimates are based on SKAGEN Kon-Tiki's independent analysis and may vary from consensus estimates. Converted share prices to reporting currency for Naspers, X5 and Cosan.

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



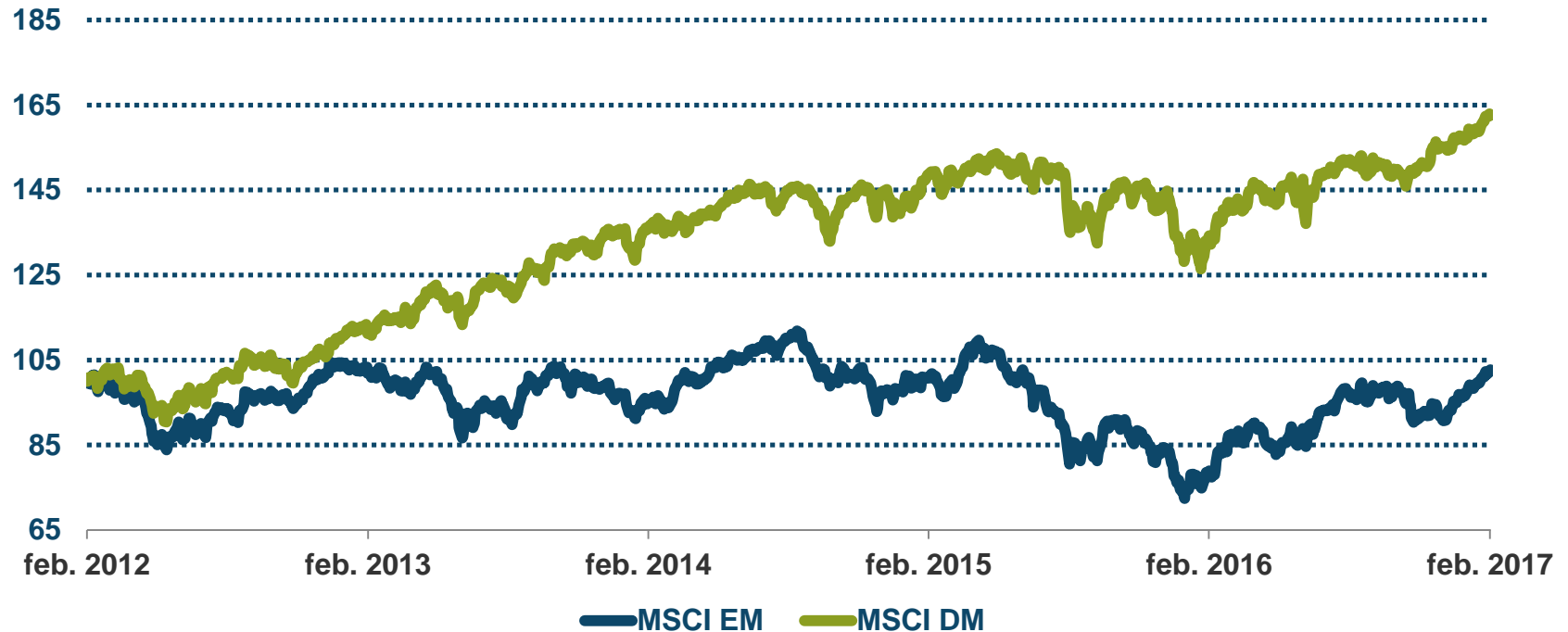
Top 12 positions as of 28 February 2017

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



Top 12 positions, as of 28 February 2017

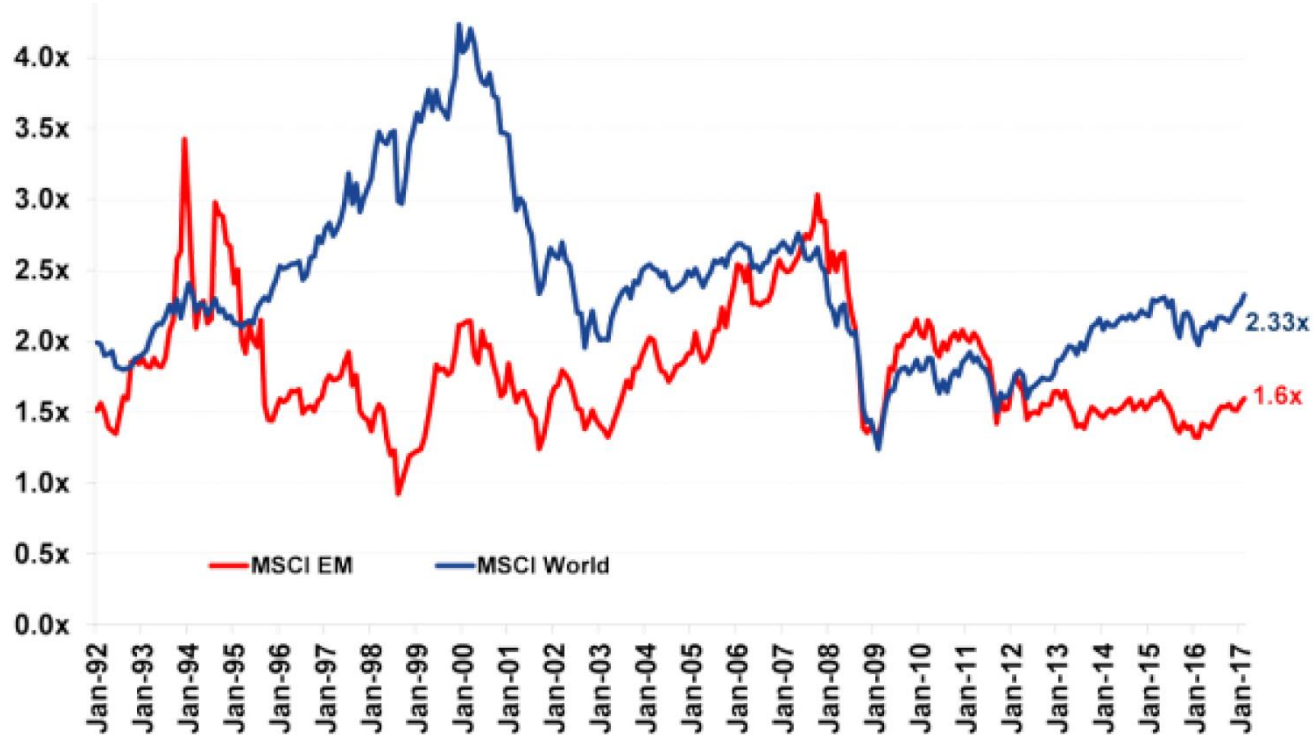
# EM have significantly underperformed DM over the past 5 years despite recent strength...



Source: SKAGEN AS as of 21 February 2017. Figures in USD

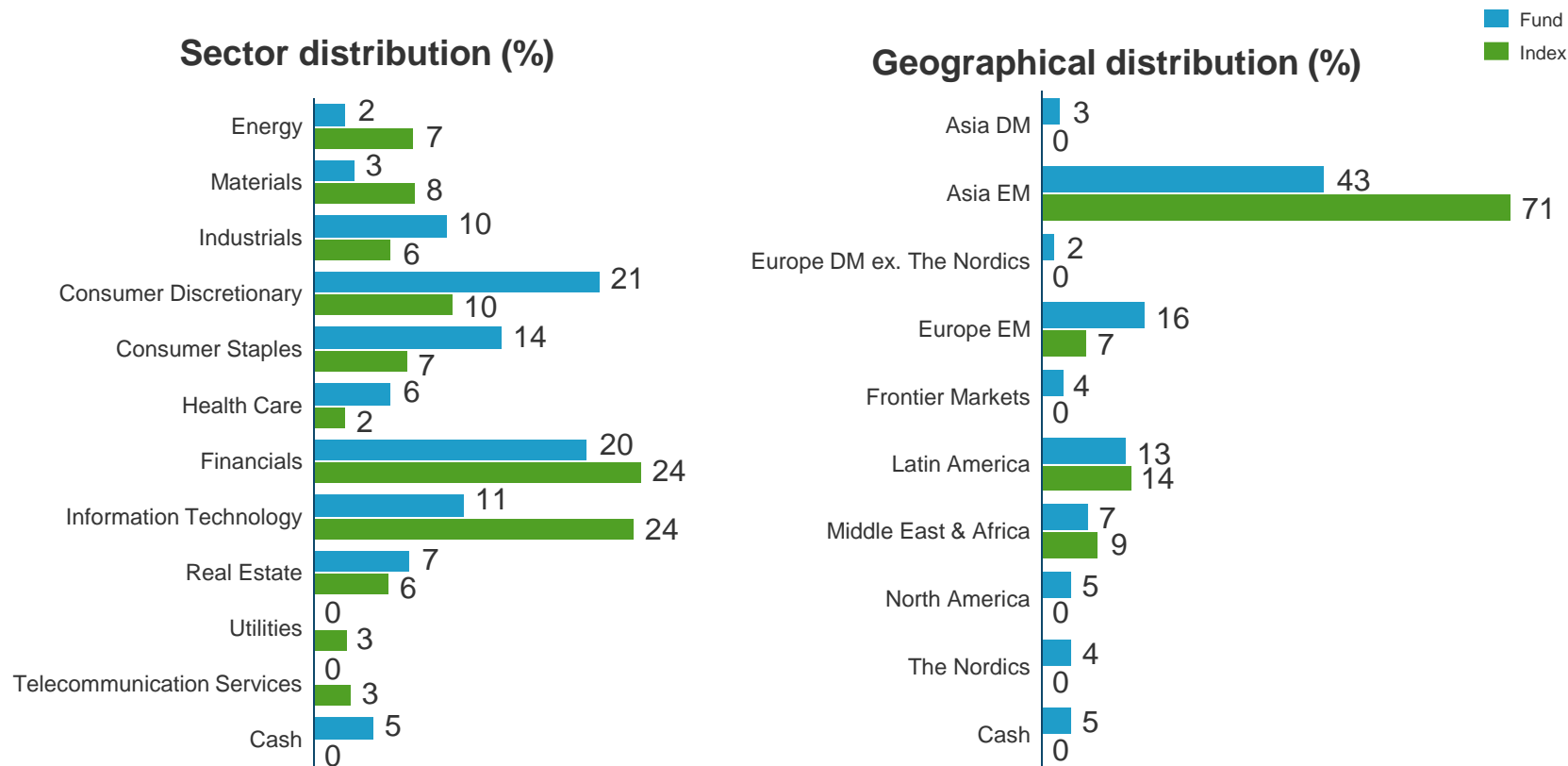
## ...which is reflected in valuations

### Trailing P/BV for MSCI EM and MSCI World



Source: RIMES; MSCI; IBES, Morgan Stanley as of 17 February 2017

# SKAGEN Kon-Tiki sector and geographical distribution



# Key earnings releases and corporate news - February 2017

State Bank  
of India  
(3.1%)

## 3Q17 results show stable asset quality, strong CASA growth, but unexciting loan growth

**Implications for investment case:** Neutral to slightly positive: stable asset quality and NIMs (net interest margins) and strong CASA growth but weak loan growth.

**Event summary:** SBI, which accounts for more than one fifth of India's banking assets reported 3Q16 net profit of INR 26.1bn (up 134% YoY (lower base effect) and +3% QoQ). This was higher than expected due to higher than expected other income and slightly lower than expected opex. Loan growth was 4%, while NIMs were stable at 2.78%. CASA growth was 35% YoY / 12% QoQ, aided by demonetisation. Tier 1 fell from 10.85% to 10.65% over the quarter.

**Undervalued:** Yes. We are rolling our estimates forward and as a result we are revising our price target from INR 300 to INR 350. Price target is based on 1.1x 18e BV plus Life valued at 3x EV (slight discount to last transaction value).

Great Wall  
Motor (2.6%  
weight)

## 4Q16 at upper end of guidance

**Implications for investment case:** Positive. We have raised our forecast due to higher base. We raised our target price from HKD 10 to 11, still applying P/E of 8x. We believe unit sales will continue to suffer from the front end loaded demand in December for a few more months, but see new models as a driver from 2Q17.

**Summary:** GWM released further details about preliminary results for FY16, narrowing the quite wide net profit band of RMB 10-10.6bn to the upper end of the range at RMB 10.55bn, which represents a 31% YoY increase. 4Q16 net profit of RMB 3,338m rose 80% YoY and 46% QoQ, driven by sales growth of 50% YoY and 61% QoQ to RMB 33,763m. Operating profit of RMB 3,711m rose 97% YoY and 36% QoQ. Operating margin was 9.9% versus 8.2% in 4Q15 and 10.9% in 3Q16. The QoQ decline comes as 4Q carries high costs due to year-end bonuses, etc.

**Undervalued:** Our target price of HKD 11.0 (25% upside versus share price of HKD 8.79) continues to be based on P/E of 8x for 2017e (assuming 10% EPS growth in 2017). GWM has net cash and the current dividend yield of +4% is supportive. P/BV is 1.45x and even after a margin compression from 17-18% to current 12%, the company generated RoE of 24% for FY16.



# The 10 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 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.

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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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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.

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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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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).

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# The 10 largest companies in SKAGEN Kon-Tiki (continued)



Hungarian pharmaceutical company established in 1901 with focus on Central and Eastern Europe. Transitioning from a 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.



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).



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.



Brazilian regional savings bank, with #1 position in Rio Grande Do Sul. Banrisul focuses on payroll loans to consumers and working capital and other loans to SMEs, which – together with an attractive deposit franchise (c80% of funding) – has generated high returns. The regional government owns 57% of the bank.



Largest bank in India with 17% market share (c25% including 5 associate banks). Also present 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.

## For more information please visit:

Our latest [Market report](#)  
Information on [SKAGEN Kon-Tiki A](#) on our web pages

Unless otherwise stated, performance data 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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