SKAGEN Global

Statusrapport – oktober 2015

Kunsten å bruke sunn fornuft

SKAGEN

Hovedtrekk – oktober 2015

- SKAGEN Global gjorde det 2,6 prosent bedre enn sin referanseindeks i oktober. Fondet steg 10,1 prosent, mens referanseindeksen MSCI All Country World Index steg med 7,5 prosent. Hittil i år har SKAGEN Global steget med 12,1 prosent noe som er 1,4 prosent mindre enn referanseindeksen som har steget med 13,5 prosent.

- I oktober var Samsung Electronics, GE og AIG de beste bidragsyterne til den absolutte avkastning, mens China Unicom, Vimpelcom og Barclays var de største negative bidragsyterne.

- SKAGEN Global gikk inn i en ny posisjon i det amerikanske detaljisthandelselskapet Dollar General (DG). Vi mener at DG har evnen til å vokse videre, samtidig som selskapet opprettholder marginene og fortsetter å belønne aksjonærene med tilbakekjøp av aksjer og utbytte.

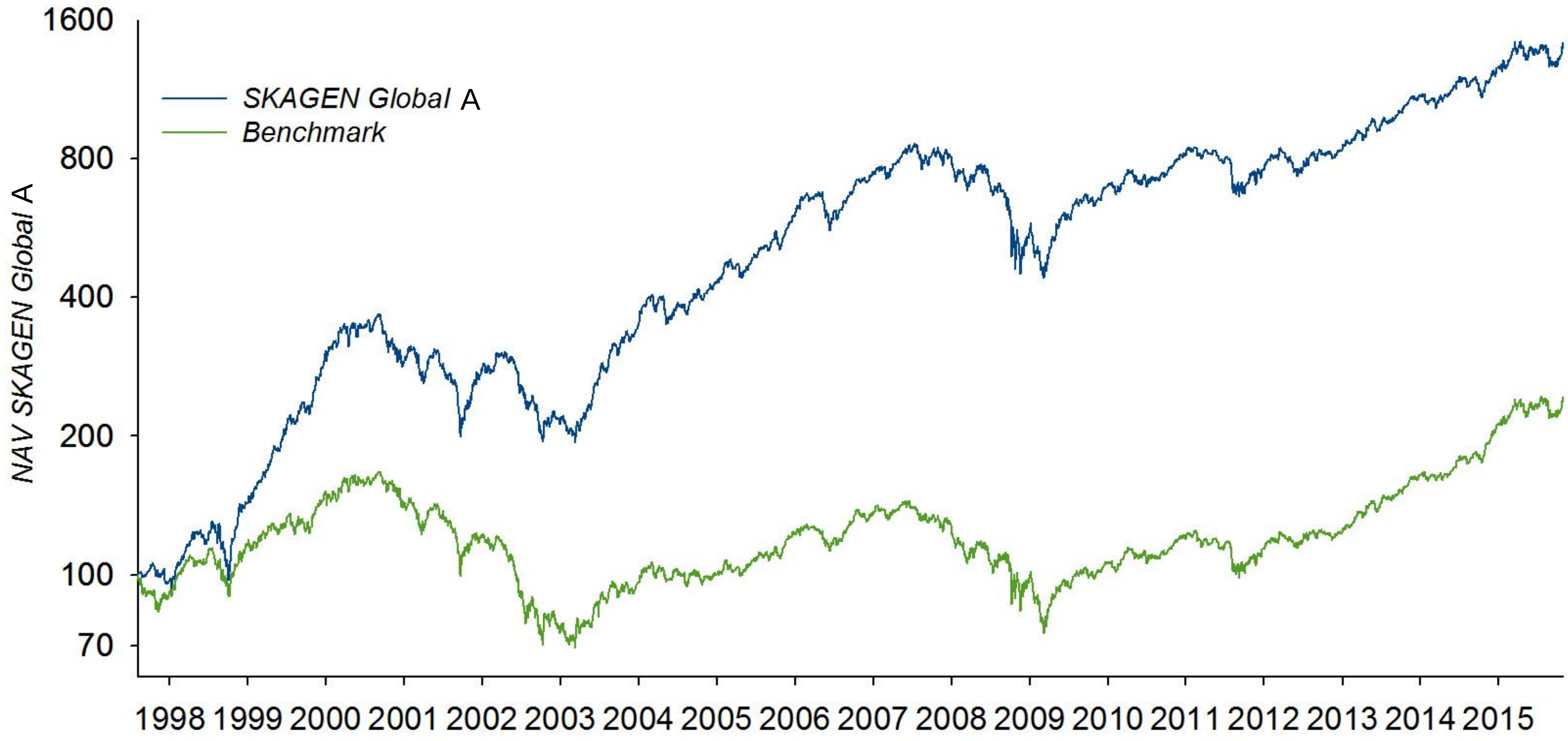
- Vi mener at disiplinert kapitalallokering er nøkkelen til avkastning. Med fokus på en mer konsentrert portefølje som har posisjoner med høy overbevisning, sier vi farvel til et antall posisjoner som ikke møter våre krav til risikojustert avkastning. Som følge av dette gikk Banrisul, Global Telecom, First Pacific, Yazicilar, Kazmunaigas, Gap, LG Corp og Norsk Hydro ut av porteføljen.

- SKAGEN Global sin portefølje forblir attraktivt priset på både absolutt og relativ basis. Fondets 35 største innehav prises til en vektet pris/inntjening (2015e) på 13,5x og en pris/bok på 1,3x, mens respektive tall for referanseindeksen er hhv. 16,4x og 2,1x.

- Som følge av oppgangen i fondet den siste måneden har den vektede gjennomsnittlige oppsiden til våre kursmål for fondets topp 35 innehav falt fra 48 prosent i september til 35 prosent i oktober.

** Med mindre annet er oppgitt er alle avkastningstall for fondet i denne rapporten knyttet til klasse A, og etter fradrag for gebyrer.*

Avkastning, oktober 2015



	Oktober	QTD	Hittil i år	1 år	3 år	5 år	10 år	Siden start*
SKAGEN Global A	10,1%	10,1%	12,1%	21,0%	20,2%	13,1%	10,5%	15,7%
MSCI AC World Index*	7,5%	7,5%	13,5%	25,6%	25,4%	15,8%	8,0%	4,9%
Relativ avkastning	2,6%	2,6%	-1,4%	-4,6%	-5,3%	-2,8%	2,5%	10,7%

Note: Alle tall utover 12 måneder er annualisert (geometrisk avkastning)
* Startdato: 7. august 1997
** Referanseindeksen var M*SCI World i NOK fra 7. august 1997 til 31. desember 2009 og MSCI All-Country Index fra 1. januar 2010 og videre.*

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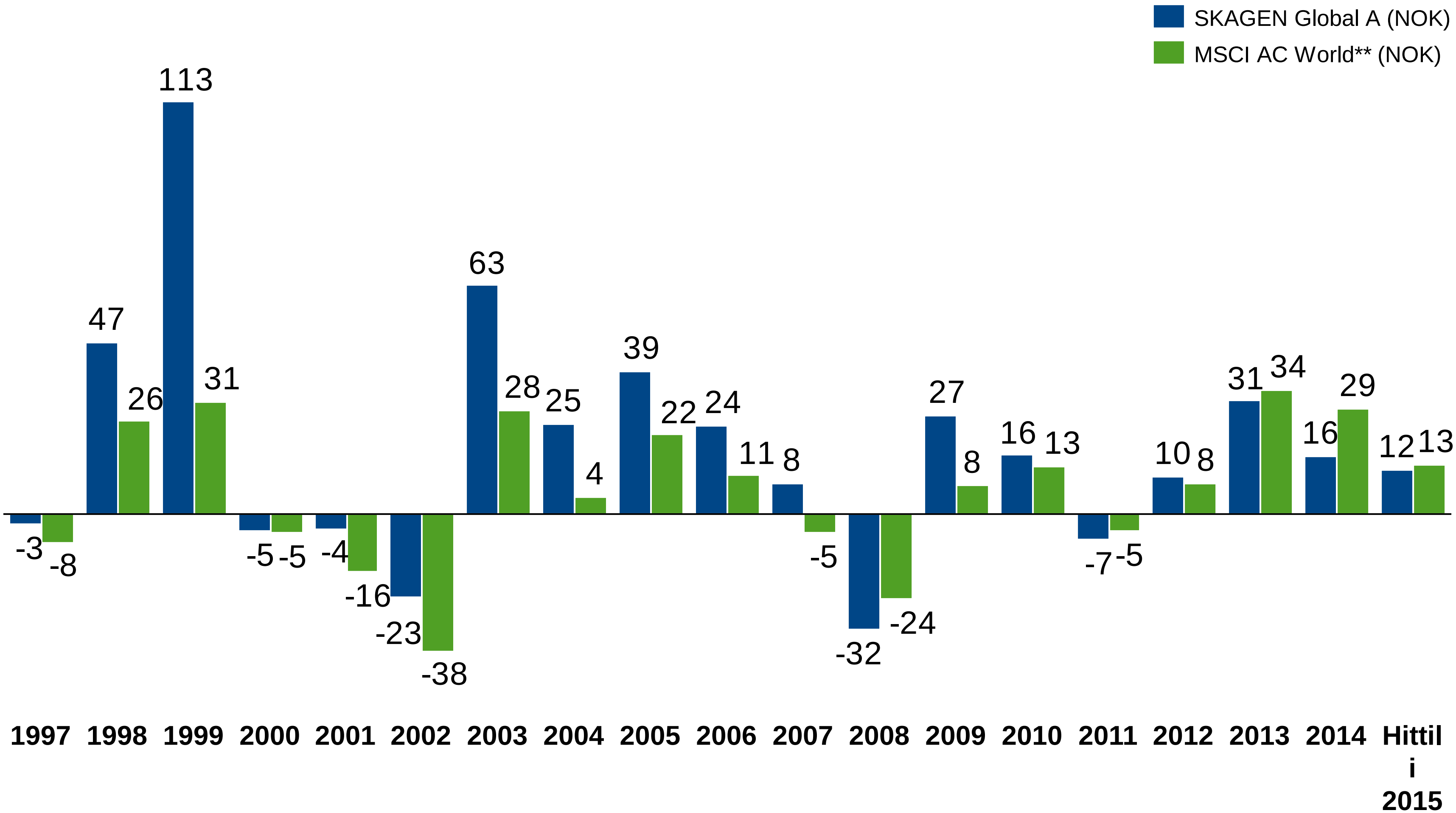
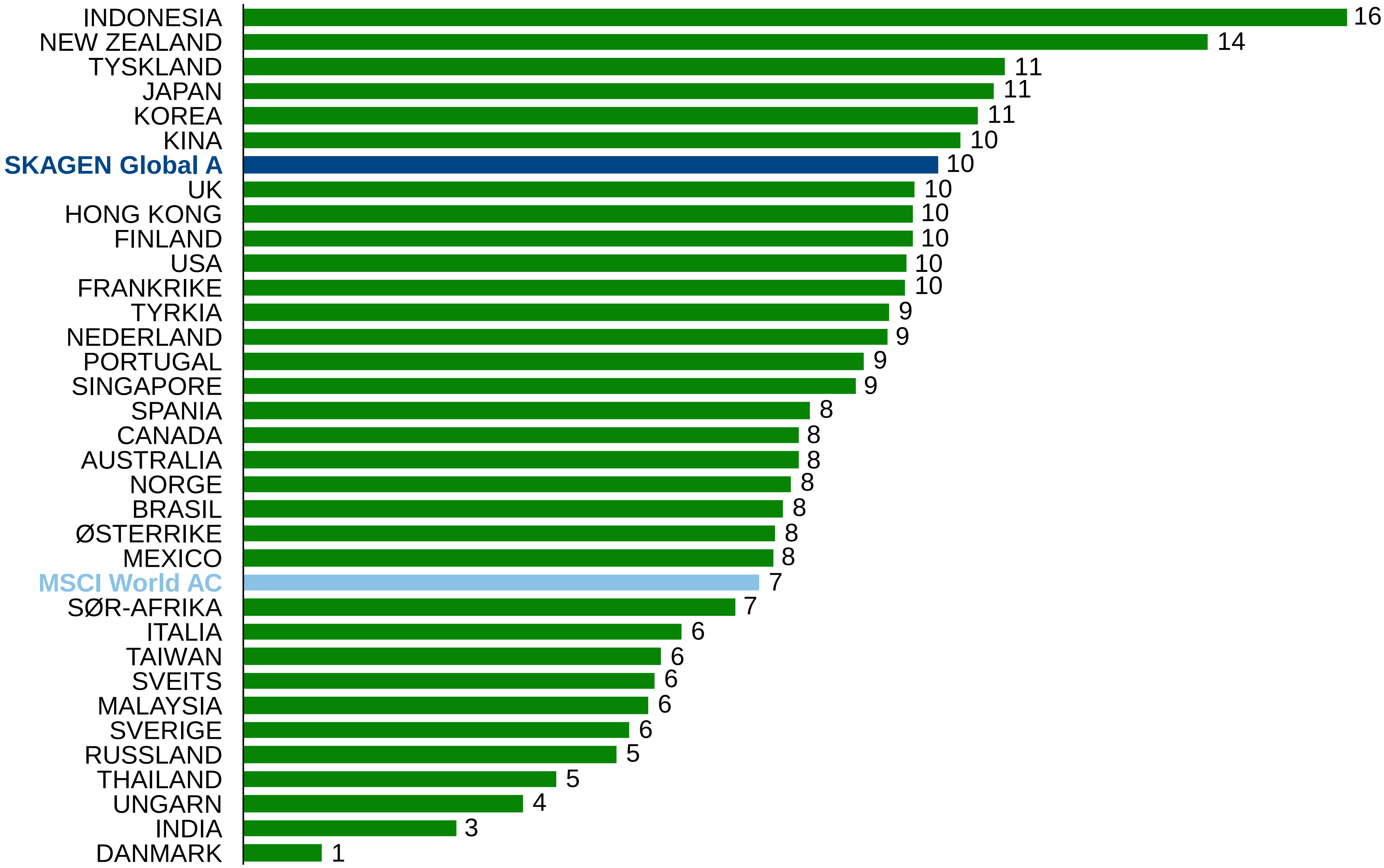
Årlig avkastning siden start (%)*

SKAGEN Global A har gjort det bedre enn indeks 14 av 18 år

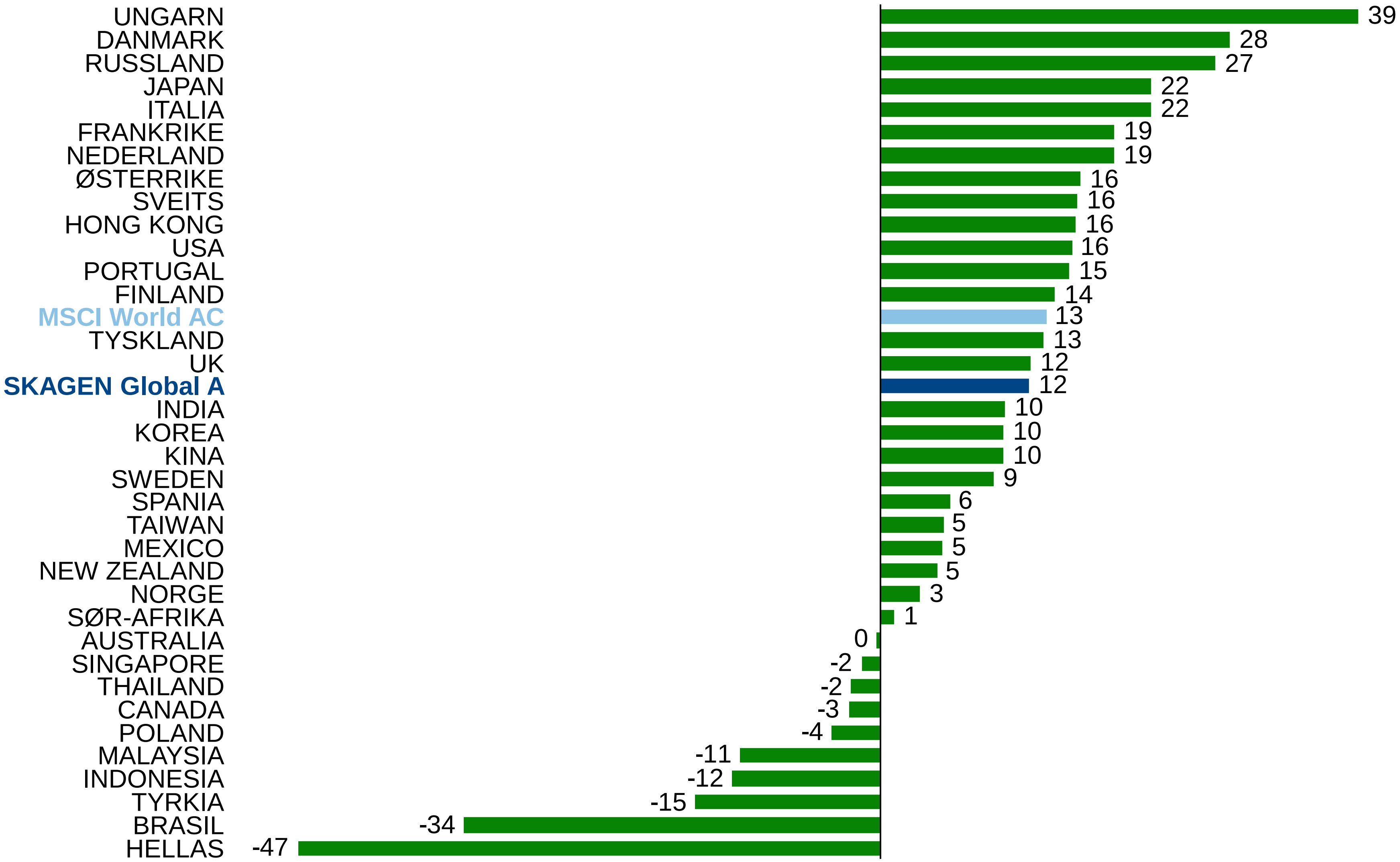


Note: Alle tall i NOK, etter gebyrer
* Startdato: 7. august 1997
** Referanseindeks var *MSCI World i NOK fra 7. august 1997 til 31. desember 1997 og MSCI All-Country Index fra 1. januar 2010 og videre.*

Markedsutvikling i oktober 2015 i NOK (%)



Markedsutvikling hittil i 2015 i NOK (%)



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Viktigste bidragsytere i oktober 2015

Største positive bidragsytere

Selskap	NOK millioner
Samsung Electronics Co Ltd	593
General Electric Co	248
American International Group	213
Microsoft Corp	199
Alphabet Inc	147
Citigroup Inc	141
Merck & Co Inc	121
UPM-Kymmene OYJ	100
Koninklijke DSM NV	99
Lundin Mining Corp	98

Største negative bidragsytere

Selskap	NOK millioner
China Unicom Hong Kong Ltd	-20
VimpelCom Ltd	-18
Barclays PLC	-9
Gap Inc/The	-4
State Bank of India	-4
Nordea Bank AB	-4
Yazicilar Holding AS	-1
Global Mediacom	-1
Global Telecom Holding	-0

Total verdiskapning i oktober 2015: NOK 3 294 millioner

Note: Bidrag til absoluttavkastning

Viktigste bidragsytere hittil i 2015

Største positive bidragsytere

Selskap	NOK millioner
American International Group	500
Samsung Electronics Co Ltd	438
General Electric Co	408
Alphabet Inc	385
Citigroup Inc	310
Microsoft Corp	291
Renault SA	289
Sanofi	197
Roche Holding AG	163
Nordea Bank AB	163

Største negative bidragsytere

Selskap	NOK millioner
Banrisul	-195
KazMunaiGas	-176
Norsk Hydro ASA	-161
State Bank of India	-157
Afren PLC	-140
Gap Inc/The	-136
Hyundai Motor Co	-125
Global Telecom Holding	-114
Egyptian Financial Group-Hermes	-98
Lundin Mining Corp	-85

Total verdiskapning hittil i 2015: NOK 4 529 millioner

Note: Bidrag til absoluttavkastning

Kjøp og salg, oktober 2015

Kjøp

- Vi gikk inn i det amerikanske detaljisthandelselskapet **Dollar General** (DG) i oktober. Det har i det siste vært press på selskapets butikker som følge av frykt for mindre handel blant forbrukere og aksjen har hatt en nedgang på rundt 20 prosent, noe som har gitt oss et attraktivt inngangsnivå. Vi tror at DG har mulighet til en årlig vekst i antall butikker på 6-7 prosent. DG har også anledning til å iverksette flere tiltak for å opprettholde – eller til og med å øke - marginene mens selskapet fortsetter å sin praksis med å returnere fri kontantstrøm til aksjonærene via tilbakekjøp av aksjer og utbytter. (Les mer lenger bak i rapporten).

- Posisjonene i det børsnoterte amerikanske helseforetaket **Merck** og den sveitsiske farmasigiganten **Roche,** ble også økt for å dra fordel av attraktiv verdsettelse da aksjene hang etter markedets nylige oppgang.

Salg

- Som følge av sterk aksjekursutvikling reduserte vi posisjonene i **GE**, **Alphabet (Google)**, **Microsoft**, **Comcast**, **GM** og **Samsung Electronics**

- Ettersom vi kontinuerlig vurderer risk-reward profilen til våre posisjoner, etterstreber vi å fordele kapital til de posisjonene som har den mest attraktive risiko-avkastning profilen. Som en følge av dette ble **Global Telecom, First Pacific, Yazicilar Holding, Kazmunaigas** og **LG Corp** solgt ut av porteføljen. De fleste av disse navnene var relativt små posisjoner i porteføljen med begrenset likviditet.

- Vi benytte høstens oppgang i råvarer til å selge oss ut av vår posisjon i **Norsk Hydro** ettersom vi ser svakere utsikter for aluminiumsmarkedet, hovedsakelig forårsaket av irrasjonelle produsenter i Kina.

- Vår tese om en snuoperasjon i kleshandelsselskapet **Gap** er blitt forstyrret av at nøkkelpersoner bak dette omstillingsinitiativet har forlatt selskapet for andre attraktive jobbmuligheter. Vi besluttet derfor å selge oss ut av Gap da den nåværende situasjonen ikke lenger støtter den opprinnelige investeringstesen.

- Vi solgte oss ut av en mindre posisjon i den brasilianske banken **Banrisul** fordi vi ser mer attraktive investerings case i Barclays og Credit Suisse, to europeiske banker som kom inn i porteføljen i 3. kvartal.

Viktigste endringer i 1. kvartal 2015

Økte poster

Q1

General Electric	(Ny)
Lundin Petroleum	(Ny)
Columbia Property Trust	(Ny)
AIG	

Reduserte poster

Q1

Renault	(Ut)
Baker Hughes	(Ut)
Gazprom	(Ut)
Yamaha Motor	(Ut)
Weatherford	(Ut)
Petrobras	(Ut)
Mosaic	(Ut)
UIE	(Ut)
Renewable Energy Corp (conv.)	(Ut)
Afren	(Ut)
Akzo Nobel	
Samsung Electronics	
Technip	
Toyota Industries	
Unilever	
Raiffeisen Bank	
Gap	
Talanx	

Viktigste endringer i 2. kvartal 2015

Økt poster

Q2

Tyson Foods	(Ny)
Sabanci Holding	(Ny)
Cheung Kong Property Hld*	(Ny)
Google	
Cheung Kong Hutchison Hld	
Hyundai Motor	

Reduserte poster

Q2

Technip	(Ut)
Talanx	(Ut)
Raiffeisen Bank	(Ut)
Cheung Kong Property Hld*	(Ut)
Citigroup	
AIG	
Lenovo Group	
Volvo	
China Unicom	
Comcast	
Tyco International	
Samsung Electronics	

** Skilt ut fra Cheung Kong Hutchison Hld*

Viktigste endringer i 3. kvartal 2015

Økte poster

Q3

G4S	(Ny)
China Mobile	(Ny)
Merck	(Ny)
Barclays	(Ny)
Credit Suisse	(Ny)
WM Morrison Supermarkets	(Ny)
Samsung Electronics (Ord)	
Carlsberg	
Lundin Mining	
Tyson Foods	
Google	

Reduserte poster

Q3

Hyundai Motor	(Ut)
Storebrand	(Ut)
Varian Medical Systems	(Ut)
OCI	(Ut)
Valmet	(Ut)
Prosegur	(Ut)
China Mobile	(Ut)
China Communication Services	(Ut)
Samsung Electronics (Pref)	
LG Corp	
General Motors	
Citigroup	
Google	
Sanofi	
Teva Pharmaceutical	

Viktigste endringer i 4. kvartal 2015

Økte poster

Q4

Dollar General Corp	(Ny)
Roche Holding AG	
Merck & Co Inc	

Reduserte poster

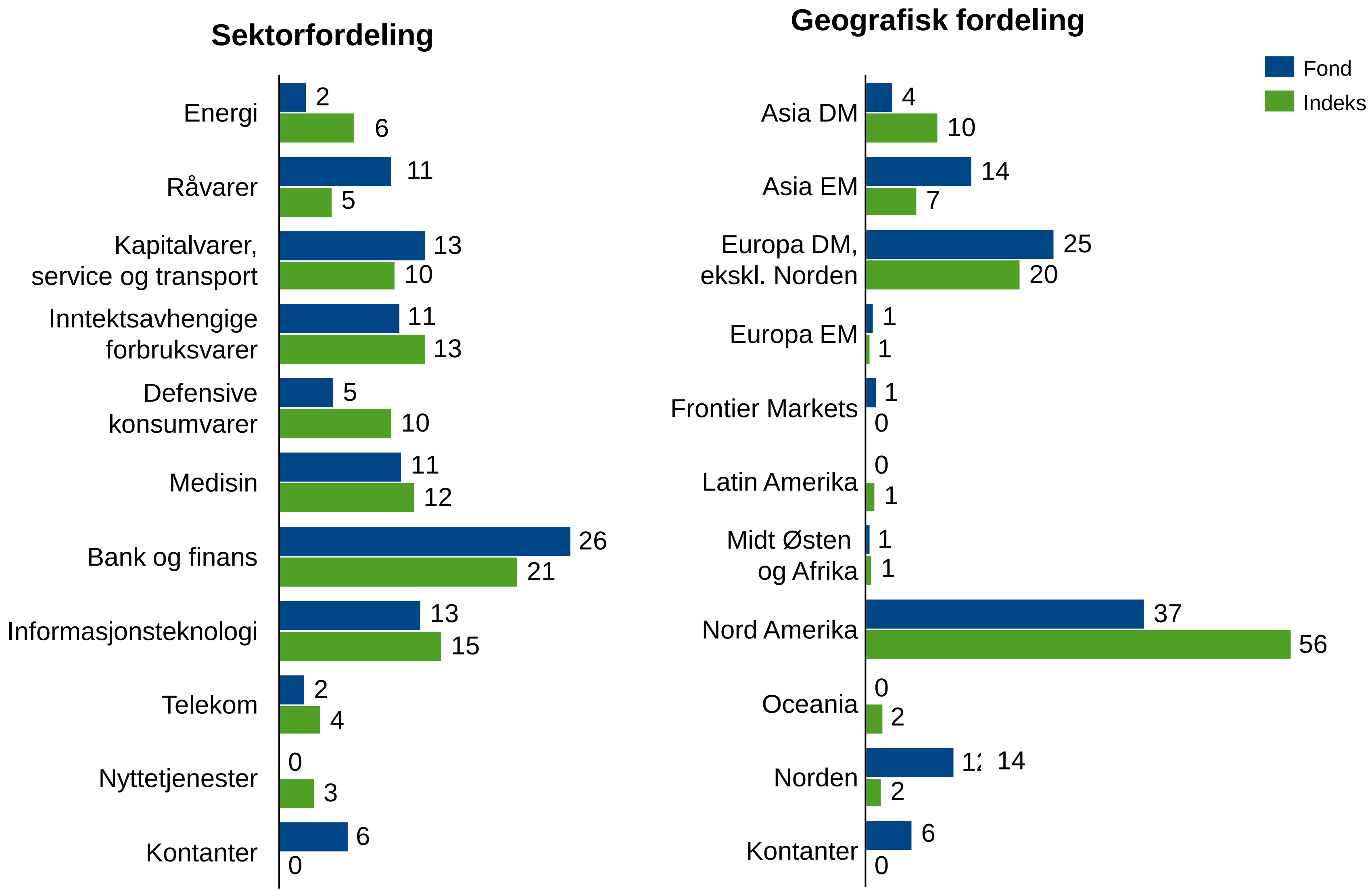
Q4

Norsk Hydro ASA	(Ut)
LG Corp	(Ut)
Gap Inc/The	(Ut)
KazMunaiGas	(Ut)
Yazicilar Holding AS	(Ut)
First Pacific Co Ltd/Hong Kong	(Ut)
Global Telecom Holding	(Ut)
Banrisul	(Ut)
General Electric Co	
Alphabet Inc	
Microsoft Corp	
Comcast Corp	
General Motors Co	
Samsung Electronics Co Ltd	

Største poster i SKAGEN Global per 31. oktober 2015

	Posisjonens størrelse, %	Pris	P/E 2015e	P/E 2016e	P/BV last	Kurs mål
SAMSUNG ELECTRONICS	7.1	1 195 000	8.4	8.3	1.0	1 500 000
CITIGROUP	6.1	53.2	9.6	9.2	0.8	75
AIG	5.8	63.1	13.0	11.5	0.8	90
ROCHE	4.0	268.3	19.0	17.4	13.4	380
GENERAL ELECTRIC	3.9	28.9	22.1	19.1	2.6	34
MERCK	3.4	54.7	15.4	14.5	3.3	76
NORDEA BANK	3.3	94.5	10.9	10.9	1.4	140
CK HUTCHISON	2.6	106.5	12.8	11.3	1.0	140
STATE BANK OF INDIA	2.6	237.1	9.0	7.5	1.1	400
ALPHABET	2.3	710.8	24.5	20.8	4.2	785
Vektet topp 10	**41.1**		**12.0**	**11.2**	**1.2**	**36%**
Vektet topp 35	**82.9**		**13.5**	**12.2**	**1.3**	**35%**
MSCI AC World			**16.4**	**15.0**	**2.1**	

Sektor og geografisk fordeling mot indeks, oktober 2015



SKAGEN

Nyheter og annet om porteføljeselskaper – på engelsk

Kunsten å bruke sunn fornuft

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Key earnings releases and corporate news, October 2015

Citigroup

(6.1%)

Flattish topline and 36% growth in net income as cost reductions works out as planned.
Summary: The bright spots in the third quarter report were lower operating costs, control of Citi Holdings, lower loan losses and lower taxes due to utilization of tax loss carry forwards.

Investment case implications: Our investment thesis of cost cutting potential and other optimization processes is folding out nicely. When we entered into the investment, Citi was perceived as a poorly managed global bank with a lot of hangovers from before the financial crisis in 2008. In 2015 the clean-up process is clearly showing its impact. 2015 and 2016 earnings go into the capital buffer, but as Citi is well capitalized and does not need the additional cash, management's intention is to return the cash to shareholders. There are still toxic assets on the balance sheet (Citi Holding) and litigation cases to be settled, but the current operating performance should mitigate those concerns.

GE

(3.9%)

Positive Q3 results driven by solid execution
*Summary: Better then expected earnings per share in Q*3. The only negative aspects were slowing orders and a slight decline in total revenues. GE management highlighted the revised compensation program as a driver behind improved performance across the group. It also stated that GE Capital assets in the US have sold for around 1.4 P/TNAV (slightly above expectations) and that emerging markets face "more headwinds than tailwinds".

Investment case implications: Positive. Now the solid execution built up over the past 12+ months is starting to bear fruit. The market is beginning to re-evaluate its negative predisposition around GE given the improved financials backing the turn-around story and highlighting the multi-year upside potential. As market expectations on GE are beginning to rise, reflected in the share price, we have locked in some of the gains by slicing off a decent chunk of our position.

Roche

(4.0%)

Roche reports solid sales and higher guidance in Q3 results
Summary: Good sales of new diagnostic to laboratories, especially immunodiagnostic products. Strong sales of new and old drugs compensated for lower prices (expired patents) and lower FX. Sales guidance for this year was raised and the dividend increase in CHF is to be maintained as per management communication. No material pipeline updates.

Investment case implications: In-line with thesis. Management reiterated its strong belief in new products and its conviction that the threat from biosimilar products is manageable. We see Roche as an attractive stock at these share price levels. In particular, we like Roche's exceptional pipeline of new drugs. The company's history shows an impressive track record when it comes to converting pipeline research into commercial products and later free cash flow making its way back to investors.

Key earnings releases and corporate news, October 2015

Nordea

(3.3%)

Stiffer capital regulation slows down the Nordic dividend machine

Summary: Nordea's Q3 numbers missed consensus pre-tax profit and EPS estimates because of disappointing revenue figures in all segments. The bank cites slow activity in the summer, but also notes that the typical autumn pick-up in corporate and market activity has been absent thus far. Interestingly, Nordea posted the first loan loss provision for Norway this quarter – a small player in oil services – but the bank's overall exposure to oil & gas in Norway is relatively limited (<2% of its loan book). Nordea's new CEO officially takes over on 1 November 2015.

Investment case implications: Negative. The key message was that capital requirements are going up - although it's unclear when and by how much – due to more stringent requirements imposed by the Swedish FSA and European regulators. The implication for Nordea is that the new uncertainty around capital levels reduces the bank's ability, at least in the short term, to pay out significantly higher dividends. We still believe the Nordea dividend story remains valid, but acknowledge that capital returns may be somewhat lower and further out in time compared to our previous estimates.

Microsoft

(2.2%)

Microsoft quarterly report - firing on all cylinders

Summary: Microsoft's earnings beat expectations and the share price rallied. The cloud business performed strongly and the on-site server business also had positive growth. Disciplined cost control sent operating margins up 200 basis points from a year earlier. The company also returned $7 bn in the quarter to shareholders through dividends and buybacks.

Investment case implications: Big positive. Investors have not believed Microsoft's targets to grow cloud revenues. Cloud is an industry "game-changer" and we see Microsoft as well positioned to benefit from structural tailwinds in this area. The combination of a strong structural position, a shareholder-friendly management team and a reasonable valuation explains why Microsoft is a top-10 position in SKAGEN Global. We used the market euphoria to trim our position into strength

Alphabet
(2.3%)

Accelerated growth, lower capex and share buybacks

Summary: Alphabet (Google) reported much better than expected 3Q 2015 results. The core sites business showed no signs of deceleration. After amassing USD 73 billion of cash and equivalents, they finally announced a capital return program.

Investment case implications: The quarter showed progress in all key aspects of our investment thesis. As a bonus, the new CFO continues to implement more market friendly communication and also announced a USD 5bn share buy-back program. Our investment thesis is based on a differentiated view in three key areas. i) Sites (Search and YouTube) is not a mature business ii) Current high capital intensity is temporary and will come down iii) Opex will not continue to grow faster than revenues, as Alphabet's main businesses are highly scalable.

Key earnings releases and corporate news, October 2015

Merck

(3.4%)

US pharma company Merck beats low expectations in Q3

Summary: Merck Q3 EPS 3% ahead of consensus mainly driven by lower opex and tax rate. Sales in-line at $10 bn but down 5% YoY as FX had 7% negative impact. Gross margin expansion YoY by 80 bps to 75.1%. Keytruda (immuno-oncology) and Januvia (diabetes) sales better than expected. Animal Health and Remicade (arthritis) worse than projected due to FX and biosimilar competition, respectively. 2015 guidance slightly increased. CEO visited the White House for a chat with Obama and came away reassured that the pharma-bashing from Washington as reported in the media has limited relevance to serious, R&D-heavy pharma players such as Merck.

Investment case implications: Minor positive. Along with the rest of the US health care names Merck has been weak in the third quarter, leading to rather modest expectations going into results. With 54% of sales outside the US, the strong dollar clearly weighed on numbers but sales still held up OK. The new cancer drug, and potential blockbuster, Keytruda now captures 70% of the US melanoma market and is gradually receiving approvals to target lung cancer as well. Hillary Clinton's pharma-price-gouging tweet in September ripped through the health care stocks and shaved off at least $130 bn in market cap, showing that political rhetoric leading up to the 2016 US presidential election may cause the sector to wobble. Such short-term noise may present excellent opportunities for long-term investors who see through the noise to opportunistically add exposure to high-quality franchises at discount valuations.

Samsung Electronics

(7.1%)

Buyback program announced

Summary: A big early Christmas gift from Samsung to SKAGEN's unit holders. In connection with better than expected third quarter numbers, Samsung Electronics announced a shareholder return policy. It intends to distribute 30-50% of free cash flow through dividend and share buyback for 2015-2017 with a priority to dividend with the balance to buybacks. On top of this sustainable distribution plan comes an immediate buyback program of KRW 11.3tr (USD 10bn) of shares outstanding. Preference shares acquired to be cancelled as opposed to previous buybacks which were added to treasury shares. The discount on the preference shares narrowed from 21.9% to 18.6% on this news.

Investment case implications: Very positive. While announcement of a sustainable shareholder remuneration plan was well flagged, the magnitude was far above market expectation. Maybe the most important take from this announcement is an implicit message that the family does not need to increase its control in Samsung Electronics. This signal should reduce the perceived governance risk and allow for a revaluation of the shares towards our fair value.

The 10 largest companies in SKAGEN Global

Citi is a US financial conglomerate with operations in more than 100 countries worldwide. The bank was bailed out by the US government during the credit crisis and subsequently raised USD 50bn of new capital. Consists of two units: Citi Holdings which is a vehicle for assets that are to be run down and sold and Citi Corp which is the core of the going concern business. In Citicorp 60% of revenues are derived from outside the US - mainly from emerging markets.

Samsung Electronics is one of the world's largest producers of consumer electronics. 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 domestic appliances, cameras, printers, PCs and air conditioners.

AIG is an international insurance company serving commercial, institutional and individual customers. The company provides property-casualty insurance, life insurance and retirement services. AIG was at the very centre of the financial crisis as the central bank for mortgage insurance – it was bailed out in a USD 180bn bail out. The company has two core insurance holdings that it intends to keep: Sun America and Chartis.

Founded in 1892 by Thomas Edison et al., General Electric (GE) operates two divisions (GE Industrial and GE Capital) contributing approximately the same portion of group earnings. GE is the world's 10^{th} largest publicly-traded company and boasts the 6^{th} most valuable brand. The industrial segment is a play on global infrastructure with a high-margin service business and a large installed base producing a wide variety of capital goods ranging from aircraft engines and power turbines to medical imaging equipment and state-of-the-art locomotives.

Nordea holds pole position in the Nordics with 11.2m retail customers and 625,000 corporate clients. Nordea is the largest Nordic asset manager/wealth manager with EUR 224bn in AuM (EUR 138bn in managed funds). It is the most diversified among its Nordic peers. Total loans are EUR 346bn with the following split: Finland 27%, Sweden 26%, Denmark 24%, Norway 18%, and Baltics/Poland/Russia 5%.

The 10 largest companies in SKAGEN Global (cont.)

Roche is a leading pharmaceuticals and diagnostics company based in Switzerland. Half of group sales and 2/3 of EBIT are derived from the company's Big 3 oncology franchises: HER2 (breast cancer), Avastin (colorectal cancer), and MabThera/Rituxan/Gazyva (blood cancer), each about USD 7bn of revenue. These businesses all come from Genentech, in which Roche has been a majority owner since 1990, and bought the last 46% in 2009.

State Bank of India is the largest bank in India with a 22% market share. It has an unrivalled pan-India branch network and a very strong deposit franchise. The bank also has a sizeable overseas presence (15% of loan book). Aside from its core banking operation, the company is also involved in life insurance, asset management, credit cards, and capital markets.

Microsoft is the world's largest software company and delivers software to a number of applications from PCs to servers and cell phones – its most famous product is Windows and the affiliated Office Software Suite. In recent years the company has also diversified into video game consoles, ERP systems, internet search and cloud-based computing. Despite a strong push for diversification 80% of the company's revenues and nearly all its profits come from three main areas: Windows OS, Windows Server and the business division (Office Suite).

Google is the world leader in internet search through Google.com. The core business model of Google is built around its ability to generate advertising revenues from its own websites as well as partner websites. Aside from Google Search, the company owns a number of world-leading online properties (YouTube, Gmail, Google maps), browser (Google Chrome), operating systems for PC (Chrome), Mobile (Android) and has venture-like efforts in Music, Mobile Payment, TV, Healthcare, Fibre and Driverless cars. Most of the Google businesses are not yet properly monetised.

Founded in 1891, Merck & Co is a US large-cap pharma company (and #7 worldwide by revenue) with a broad pharma portfolio and a solid pipeline (R&D 16-17% of sales). HQ in New Jersey and 70,000 employees. Sales by division (2014, $42 bn): Diabetes (14%), Infectious Diseases (18%), Vaccines (13%), Animal Health (8%), Oncology (2%), Other (45%). Consensus expects legacy drugs sales to shrink by single-digit % annually.

Dollar General (DG US) USD 65

Mean reversion	Special situation	LT value creator:
0%	25%	75%

Key Figures	
Market cap	USD 19.2 bn
Net debt	USD 2.6 bn
ND/EBITDA	1.2x
No. of shares o/s	295 mn
P/E 2016	14.3x
EV/EBITDA 2015	9.5x
EV/Sales 2016	1.1x
P/B 2016	3.5x
Dividend yield 2015	1.4%
Owners	
Blackroack	10.1%
Vanguard	6.8%
GIC Private Limited	5.2%

DOLLAR GENERAL

History, business model and source of investment case

- Dollar General (DG) is the largest US dollar store retailer with an estimated 28% market share and 2015e revenue of $20bn at c. 10% operating margin. DG has more than 12,000 stores in 43 states. Most customers live within 3 to 5 miles, or a 10 minutes drive, of the stores. DG has 12 distribution centers and employs 100.000 people.
- Items typically cost in the range of $1-5 apiece. A typical store features low cost, no frills building with limited maintenance capital, low opex, and a focused merchandise offering within a broad range of categories, allowing DG to deliver low retail prices while generating strong cash flow and high returns (20% ROE, mid-teens ROIC).
- Leased property makes up 95% of the stores (only 5% owned).
- DG has four main categories (% of Sales): i) 76% Consumables; ii) 13% Seasonal; iii) 6% Home Products; and iv) 5% Apparel. Consumables are fast turning and drives traffic, but product margins are the lowest in this category. Seasonal and Home products has the highest margin in the product mix.
- Case identified through SKAGEN Global proprietary due diligence.
- Our ESG research shows that DG complies with SKAGEN's ethical guidelines, though we recognize that there is improvement potential as far as workforce health & safety is concerned.

Investment rationale

- First, DG continues to open up new stores and will grow footage by 6-7% annually for many years to come. Management thinks it is possible to add 13,000 new stores with 750 and 900 openings planned for 2015 and 2016, respectively. The market fails to fully appreciate the long-term value created by the combination of solid growth at high incremental return on invested capital for new stores (2-yr payback time, rapid productivity ramp-up from 85%)
- Second, we predict that margins are more resilient than consensus expects. Self-help initiatives including lower shrink (historically among the highest in the industry) from 3.5% to 2% over the next few years, higher private label (from 24% today to high-20%s) and direct sourcing opportunities provide upside potential and mitigate downside risk.
- Third, capital return is very much on management's mind and seems undervalued by the investor community. We think a new share buyback program will likely be initiated early in 2016 and should be in the range of $1-1.5bn, reducing the share count by 5% p.a. Additionally, the dividend was reinstated in 2015 and we see it gradually growing at a nice clip (well supported by cash flow) going forward. The net effect of sound capital return policies will help the re-rating story.

Triggers

- Extended buyback program and dividend growth policy (short-term)
- Successful execution of new store roll-out boosting earnings growth and cash flow estimates (medium-term)
- Continuous tailwind from industry consolidation, low-income segment job growth and older population (long-term)

Risks

- Stronger competitive landscape where irrational players instigate a price war in the low-price segment
- US consumers trading up as the economy recovers

Price target

We expect EPS CAGR of 12-15% over the next 3 years leading to EPS of $5.7 by 2018. We argue DG should trade at 16x P/E (earnings growth, strong cash flow, dividend support), taking our fair value target price to $94/sh.

3U acid test

Unpopular

- The entire US retail space has experienced massive headwinds over the past few quarters, leading to significant share price pullbacks across the board
- The industry expects same store sales to face continued pressure as highlighted by recent problems at Walmart
- Sell/Hold 26%

Under-analyzed

- Stock well covered by 31 analysts, but their focus seems to be on the short term prospects. We take a longer time view and do not see any reason why DG should not grow their store base as they have forecasted, especially when the return on ROIC is so favorable
- We think the magnitude of internal measures such as lower shrink, more private label products and improved sourcing initiatives remains misunderstood as these provide upside risk while helping to mitigate same store sales pressure

Under-valued

- Growing top-line by 8-9% and EPS by 12-15% annually, supported by share buybacks, suggests an earnings power in the range of $5.5-6.0/sh. in 3 years time with DG then trading at 11x P/E. We think the stock should be trading at a 16x P/E multiple by that time, giving us a target price of $94, including dividends. The stock currently trades at $65/sh, so we see an upside potential north of 40%

For mer informasjon, vennligst se:
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Informasjon om SKAGEN Global på våre nettsider