

Bodenholm sees great potential in Kambi, claims bubble-valuation in Avanza

Stockholm (HedgeNordic) - Shortly after launching the Bodenholm fund under the Brummer and Partners umbrella in 2015, the long/short equity hedge fund managed by Per Johansson (pictured) entered a short position in the British construction company Carillion. The position turned out to be a home run as shares of the company collapsed. In an interview with Swedish business journal Dagens Industri, Johansson now says that there is a bubble-valuation in Swedish online broker Avanza while he sees a five to sixfold potential in the Swedish supplier of sports betting solutions Kambi.

When Carillion, the second largest construction company in the UK, filed for bankruptcy in January, that meant bad news for a number of Swedish companies including Handelsbanken who were forced to accept significant credit losses. However, for the Bodenholm hedge fund, the collapse of the former construction giant had bingo written all over it, the fund had shortly after its inception entered a short position in the company.

According to portfolio manager Per Johansson, the Carillion case is a good example of how their “forensic accounting” approach works. The approach aims at finding candidates to go short through a very detailed analysis of companies’ balance sheets. The goal is to find cracks in often well-polished accounting facades.

“Carillion’s balance sheet was just so below standards in terms of quality, we are talking about all sorts of aggressive book keeping. They adjusted costs downwards and adjusted future revenues so that they went through the roof”, says Johansson.

“Carillion also had a number of highly indebted joint venture companies that did not show up in the company’s accounting”, he continues.

Bodenholm held the position long enough to make a significant profit but covered before the complete collapse. Johansson does not want to reveal the actual amount made on the investment but says “it has had a good contribution to the short book”.

Even on its home turf, Bodenholm have distinguished themselves as an investor playing the short side actively. During the first half of 2018, they have among other things built a short position in online broker Avanza.

“Their clients are in a bubble today. They invest in all sorts of crazy things including cannabis stocks and bitcoins and are showing a very high risk appetite. These kind of clients have started to become a large share of Avanza’s revenues and the stock is valued on the basis of that, but we believe that this revenue stream will disappear”, says Johansson and points to the fact that Avanza has an overall significant exposure to the equity market and that both the valuation of the stock market as well as the valuation of Avanza are at all-time-highs.

“At the same time it can take a long time before the bubble bursts. We are usually early in on both short and long positions. It is not like we are trying to bet on the next

quarter's performance, we are more long-term", he says.

Bodenholm invests just as much in long as they do in short positions. Since 2016, the fund has bought into First North-listed Kambi on multiple occasions and the sports betting solutions provider has become the largest Swedish exposure in the Bodenholm fund.

So far, the Kambi stock has gained more than 15 percent on the year, but Johansson says it is only the beginning. He highlights the court ruling in the US in May which opens up doors for a legalisation of sports betting in the country.

"It is a game changer for the company. I see it as by no means impossible that the stock will increase five or sixfold during the coming 5 to 6 years. Sportsbetting in the US will be huge and Kambi has already won a client that is going to be a significant player, this has hardly been noticed by the market", the portfolio manager says.

However, Johansson is not as optimistic to all companies in the gaming and sports betting sector. Bodenholm has a long-standing short position in Betsson and towards the end of March, they showed up on the list of largest short positions in online casino solution provider Evolution Gaming.

According to Johansson, the increased regulation of the sector plays in the hands of the fund.

"We believe so. The increased amount of regulation in the Nordics will make companies disappear. Some will be winners and some will be losers", he says.

Bodenholm today manages 6.5 billion SEK and targets an annual return of 10-15 percent, independent of the development of the equity market. Last year the fund gained 12.3 percent, making it one of the best performing Swedish hedge funds. So far this year, the fund has gained 2.9 percent, according to estimated numbers for May.

"It is in line with our expectations, we are pleased but not satisfied", says Johansson.

Picture source: Brummer & Partners