

Main View

Remain or Brexit: moment of truth



- A Brexit would open the door for tons of negotiations, implying increased uncertainty and risk. However, we prefer not to speculate on the potential mid-term business implications as these would mainly depend on the future rules the UK would be able to negotiate with its “partners”.
- At this stage, we are focusing only on the relative sensitivities to FX issues for stocks we cover. Our FX assumptions are: GBP down vs. main currencies, CHF and USD up vs. main currencies inc. EUR.
- Below we highlight the companies we cover that show some degree of sensitivity to this issue from a P&L standpoint, depending on their currency-mix and the currency they report in.

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Company type	Reporting in	Impact on P&L in case of Brexit	Names
UK companies	GBP	+ (business outside of the UK will translate into more GBP)	ARM , Burberry , Compass , Diageo , GSK , Sage , Tesco , Worldpay
	USD	- (business in EUR/GBP will translate into less USD)	Astra , Intercontinental , Shire
UK "pure domestic"	GBP	= (no FX issue)	Pennon
Non-UK companies	EUR	- (business in GBP will translate into less EUR)	Accor , Atos , Carlsberg , Heineken , Sopra , Sword , Unilever
FX event	Accounts in	Impact on P&L in case of Brexit	Names
CHF up	CHF	- (business out of Switzerland will translate into less CHF)	Actelion , LafargeHolcim , Nestlé , Roche , SGS , Swatch
	EUR	- (in case of high portion of costs in CHF)	Richemont (but less negative than Swatch)
USD up	EUR	+ (business in USD will translate into more EUR)	Ahold/Delhaize, Altice , Axway , BIC , Bureau Veritas , Capgemini , Cast , CRH , Dassault Systèmes , Essilor , Fresenius Med. Care , Heidelberg , Heineken , Infineon , Luxottica , LVMH , Melia , Pernod , Rémy Cointreau , Sanofi , SAP , Sodexo , Software AG , Soitec , St Gobain
	EUR	- (due to a high portion of costs in USD)	Adidas , SEB
	USD	- (business in EUR/GBP will translate into less USD)	AB Inbev , Temenos
	USD	+ (thanks to a high portion of costs in EUR)	Dialog , STM

Specific comments on Financials

Potential end of the "European passport"

A major legal/operating/financial issue for banks with significant CIB activities located in the UK: US bulge brackets, HSBC (reporting in USD), Deutsche Bank + BNPP/SG to a lesser extent.
Also a major issue for UK located insurers with major activities outside of the UK (Prudential, Aviva, Lloyd's affiliates...).

Concerning companies we cover

Basically the prospect is negative for all insurers as Brexit would favour a flight to quality -> bad news for investment returns and solvency II margins.
AXA, Allianz and Aegon have limited UK activities (5-6% of operating profit).
Allianz would benefit from higher a USD and lower US rates thanks to Pimco's business.
Aegon and AXA would benefit from a higher USD but would suffer from lower US rates.
Zurich is a little more exposed to the UK (8%) and would suffer from a higher USD (accounts are in USD).
Reinsurers are usually seen as safe havens within the financial sector and would benefit from a higher USD (excluding Swiss Re which reports in USD), but bear in mind that reinsurers have a higher UK exposure (15%) compared to primary insurers.



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SELL	Negative opinion for a stock where we expect an unfavourable performance in absolute terms over a period of 6 months from the publication of a recommendation. This opinion is based not only on the FV (the potential downside based on valuation), but also takes into account a number of elements that could include a SWOT analysis, momentum, technical aspects or the sector backdrop. Every subsequent published update on the stock will feature an introduction outlining the key reasons behind the opinion.

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NEUTRAL ratings 0%

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