

# European Equity Strategy

## UK LEAVES: market, sectors & stock impact

### Equity Strategy

Europe including UK

#### Downside risk to FTSE 100 of 13% - LEAVE fair value is 5,500

We see the FTSE 100 at 5,500 with the Leave vote. How do we get there? Market de-rates to 12x PE (from 15x) but the fall is mitigated by a boost to earnings from a weaker sterling (UBS sees GBP/USD at 1.27 and the euro/GBP trending towards 0.90). Earnings are boosted from -5% to 8% in 2016E and resilient at 8-10% in 2017E.

#### Sellers of domestic mid-caps & UK Banks (FTSE 250 - 35% premium to FTSE 100)

We are surprised that the mid-caps did not underperform the more global large caps. This was largely down to UK banks – they have fallen by c.10% since the pound started its descent, versus a backdrop of a flat FTSE 100. On price to book the FTSE 250 vs 100 is valued near a 12-year high. See stock ideas on what to buy in this backdrop (page 4).

#### Risk to Europe: what worked during peak of the euro crisis?

No precedent for a valued player leaving the club. But the protection that worked heading into the peak of the 2012 euro crisis was: Bunds, Defensives, Quality and Switzerland. Only one of the above is cheaper today than July 2012 – Switzerland, which today pays a dividend in line with Europe (at 4%).

#### Stocks to buy in this backdrop – left behind safety

We attach our full list of the 13<sup>th</sup> April basket of winners vs losers. Many stocks outperformed, but there were outliers that flag opportunities today. We offer a select list of buys. UK: Brexit winners that have YET to outperform and are Global, such as Sophos, Imagination Tech, AstraZeneca, Vodafone & Diageo, and European Defensives that have underperformed, such as Heineken, Telenor and Essilor.

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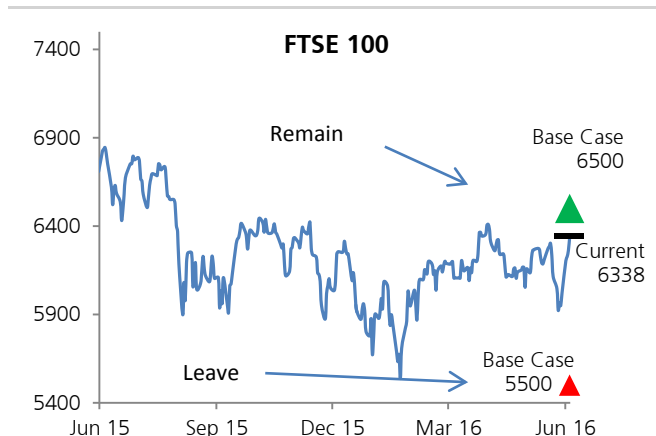
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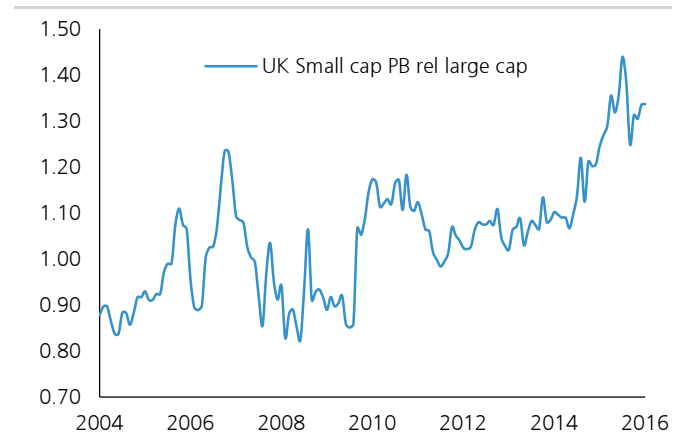
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**Figure 1: Leave - FTSE 100 at 5,500. PE falls to 12x (from 15x). Index fall mitigated by 13% boost to EPS**



Source: Thomson Datastream, UBS European Equity Strategy

**Figure 2: Prefer large caps - FTSE 250 still 35% more expensive than FTSE 100 - domestics at risk**



Source: Thomson Datastream, UBS European Equity Strategy

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# How to react to a Leave vote: 3 ideas

Before drilling into the UK markets, sectors and stocks, we flag 3 highlights up front that will help guide you through the day, week or months ahead.

## Not a UK sell-off – EU Banks & Eurozone hit more

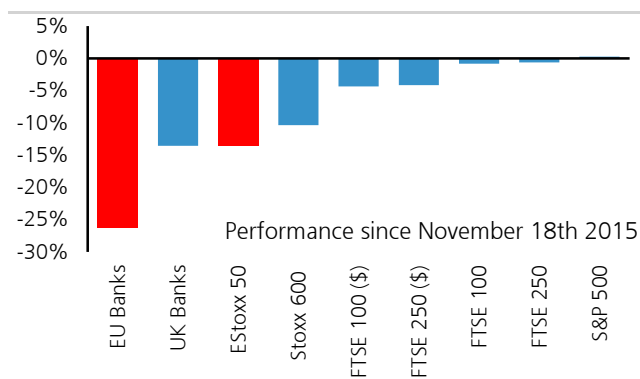
The UK is flat in local currency, but even in USD it has fallen less than 5%. As a result we see more downside in the UK (Figure 1). However, this is a broader EU story, not just a UK story. When the currency started to fall away from economic fundamentals on 18<sup>th</sup> November, it was the Eurozone that was most impacted on fear an exit would accentuate any anti-EU movements. The Estoxx 50 fell 3x as much as the UK, and EU Banks by 2.5x the UK banks. We think the upside for the Estoxx 50 could be greater in the near term if the dust begins to settle.

EU loses a valued player

EU banks fell 2.5x UK banks

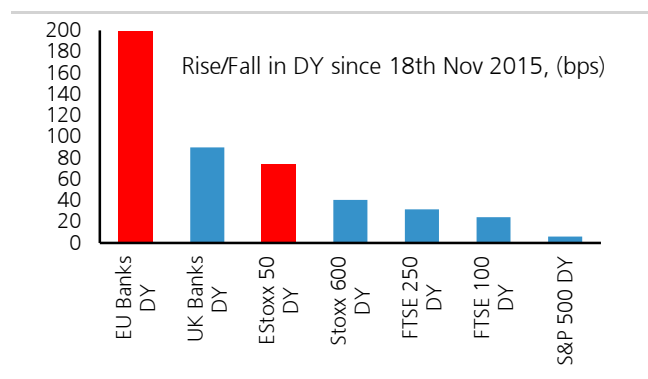
FTSE 100 & 250 FLAT

**Figure 3: Performance of equities – Estoxx 50 falls 3x as much as UK markets**



Source: Thomson Datastream, UBS European Equity Strategy

**Figure 4: Dividend Yields up in all but U.S.**

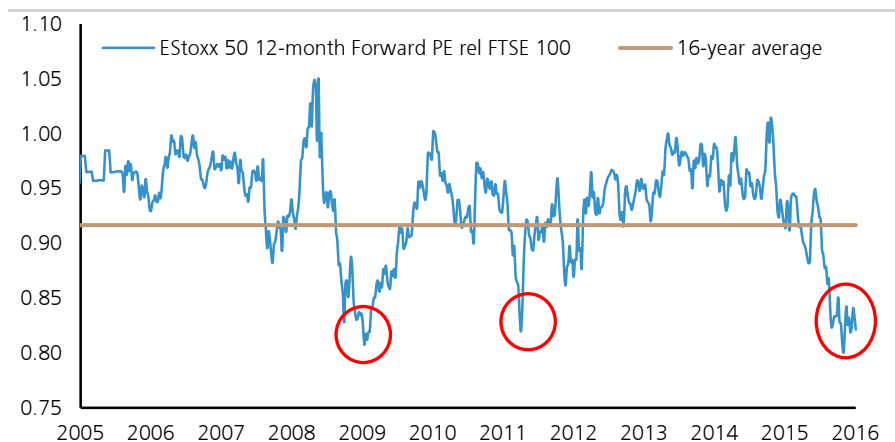


Source: Thomson Datastream, UBS European Equity Strategy

## Comparative valuation ESTOXX 50 vs FTSE 100

You may see more upside for the Estoxx 50 when the dust settles given it has been a chronic underperformer, relative to the UK (see bars above as well).

**Figure 5: Eurozone vs UK – value already for a messy crisis?**



Source: Thomson Datastream, UBS European Equity Strategy

# How to protect, both in UK and EU

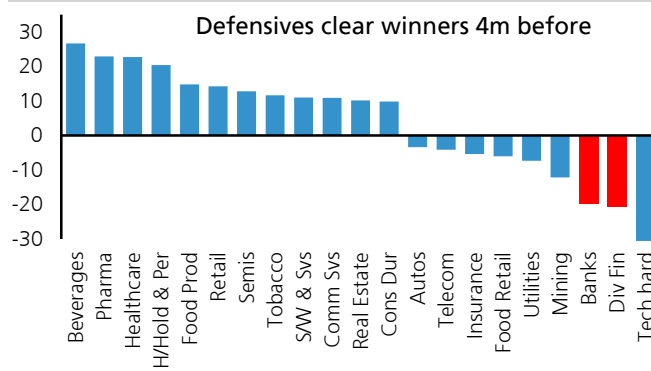
## Prefer UK large to small caps

Small caps are close to 40% more expensive than more international large caps.

## Prefer defensives

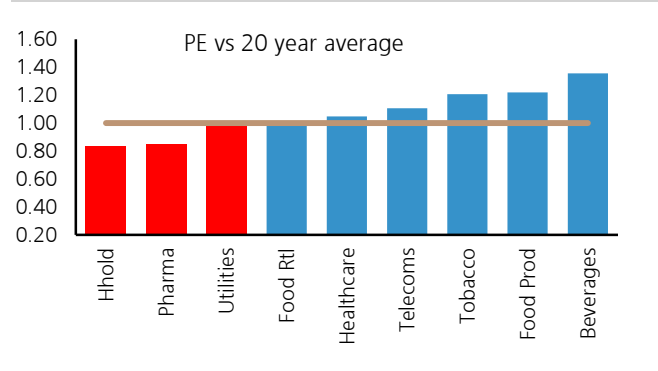
Defensives worked best in the euro crisis (as below). But today they are more expensive than in July 2012 (Figure 25). We look for cheaper ones.

**Figure 6: What happened in the July 2012 euro crisis?**



Source: Thomson Datastream, UBS European Equity Strategy

**Figure 7: We search for cheaper European Defensives**

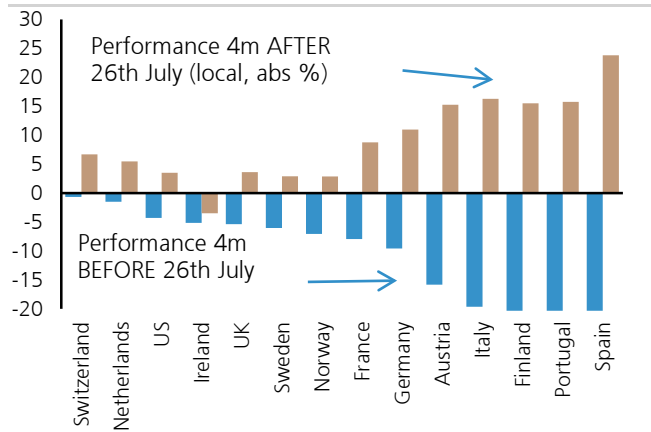


Source: Thomson Datastream, UBS European Equity Strategy

## Prefer Switzerland – cheaper today

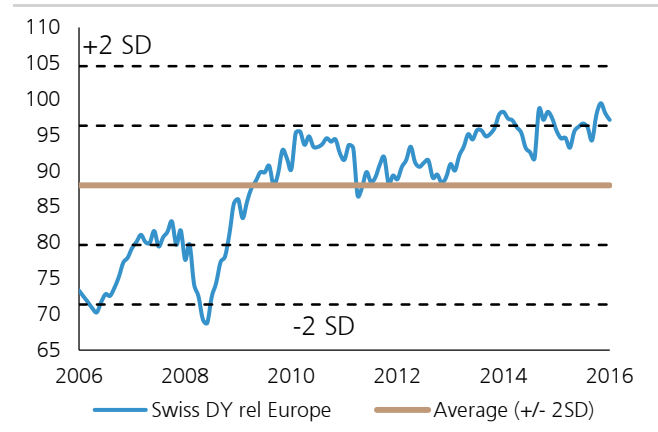
Switzerland was the best non-EU home the last time the fear about the future of the euro escalated, in March-July 2012. It even outperformed the US. The good news: today its dividend yield relative to Europe is c.10% higher than in July 2012. The Swiss market sports a 4% yield.

**Figure 8: What happened in the July 2012 sell-off? Switzerland a haven.**



Source: Thomson Datastream, UBS European Equity Strategy

**Figure 9: TODAY: Switzerland is cheaper: DY relative to Europe near decade high.**



Source: Thomson Datastream, UBS European Equity Strategy

## Stocks - BUY ideas

### Buy ideas in a leave backdrop

In these uncertain times, we provide a list of both UK and European Buys. The UK names are those previously flagged as Brexit winners that have yet to outperform (since sterling started its descent) but which benefit from lower UK sales exposure and a respective boost to profits on a weaker currency. The European names follow a hunt for reasonably priced defensives in a backdrop where defensives relative to cyclicals are more expensive today than they were in July 2012 (the peak of the last euro crisis).

**Figure 10: Stocks to BENEFIT in a leave backdrop - most stocks have significant ROW exposure, so should win on weaker FX**

Name	Sector	Performance		UK Exposure (%)	Cont Europe exposure (%)
		since Nov 18th 2015 (%)	DY 2016 (%)		
Sophos	Software	-37	0.2	13	20
Imagination Tech	Semis	-22	0.0	9	8
Telenor	Telecoms	-14	5.8	0	44
AstraZeneca	Pharma	-12	5.0	7	22
Prudential	Insurance	-12	3.1	18	0
Roche	Pharma	-10	3.5	4	28
Mondi	Paper	-9	3.3	4	57
Nestlé	Food Products	-5	3.3	3	21
Heineken	Beverages	-5	1.8	6	33
ARM Holdings	Semis	-4	1.0	1	10
Essilor	Healthcare	-4	1.0	3	32
Vodafone Group	Telecoms	-3	5.1	15	51
Diageo	Beverages	-2	3.2	10	9
Centrica	Utilities	1	5.7	54	2
Meggitt	Capital Goods	2	4.0	10	22

Source: UBS, European Equity Strategy

See also the bigger table in the back.

For further details on many of these names and our original Brexit research please see the following link: [Full Brexit: Stocks, EU Risk and Swiss Protection](#), 13 April 2016

**15 UK & European stocks that should benefit from a Leave**

**See full stock list on page 13**

**See also Appendices:**

**Bottom up sector comments on page 15 and geographical sales data on page 17**

## UK Market: asymmetric risk – 13% downside/3% upside

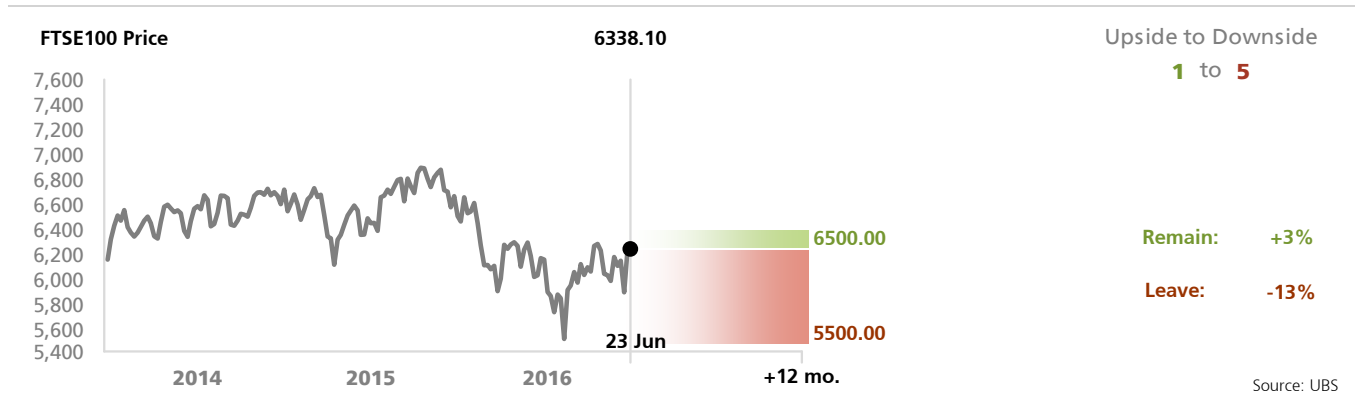
With 'Leave', we get a FTSE 100 fair value of c.5,500 (range: 5,250 to 5,900). This assumes: 1) a 20% de-rating in the PE from 15x to 12x and 2) enhanced EPS growth for 2016E (we move from -5% to +8%) and 8-10% for 2017E supported by a weaker pound and commodity catch-up, but dragged down by weaker GDP growth/confidence. Consensus EPS growth is -5% in 2016E and 13% in 2017E.

**Leave= 5,500**

**PE falls to 12x**

**EPS growth 8% for 16E & 17E**

**Figure 11: Our fair value for FTSE 100 on Leave is 5,500 (using mid-day price on 23<sup>rd</sup> June)**



Source: UBS

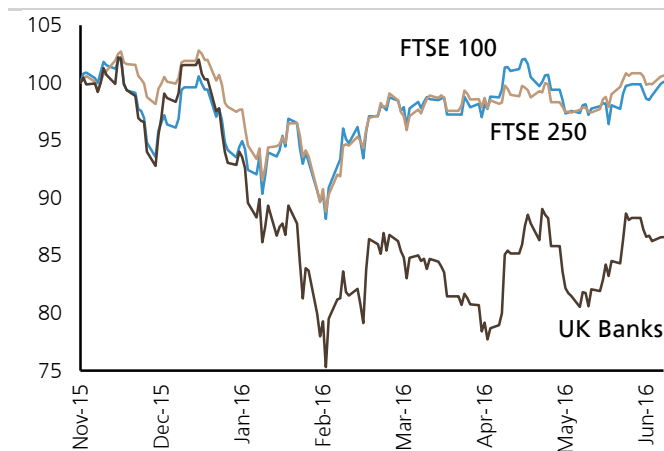
## Prefer FTSE 100 relative to FTSE 250

A weaker domestic economy and weak sterling supports the large caps. The FTSE 100 has 75% of sales outside the UK and barring any immediate trade restrictions they should benefit. As noted on 13<sup>th</sup> April, we are surprised that the smaller cap stocks have not underperformed the mid-caps. This is partly down to the Banks dragging down the FTSE 100 with a risk of slowing growth/rate cuts and flatter curves. Today's valuation gap between the FTSE 100 and FTSE 250 is near a 12-year high, with the FTSE 250 c.40% more expensive on Price to Book.

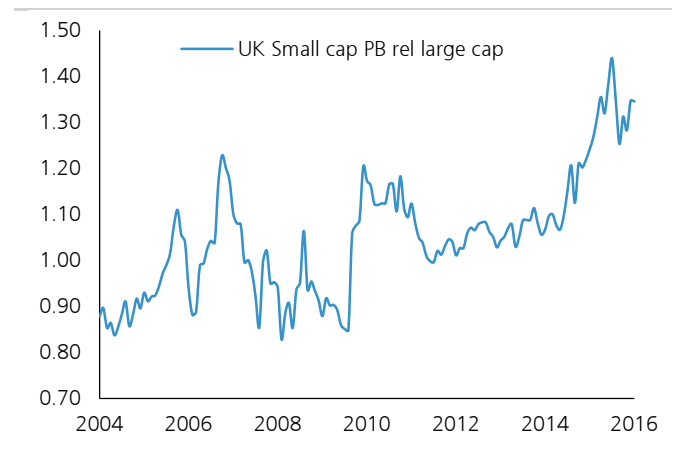
**Sellers of domestic small caps**

**Mid-caps are close to 40% more expensive than large caps**

**Figure 12: FTSE 100 has NOT outperformed the FTSE 250. Banks have been a drag.**



**Figure 13: FTSE 250: 35% more expensive large caps – near its highest gap in 12 years**



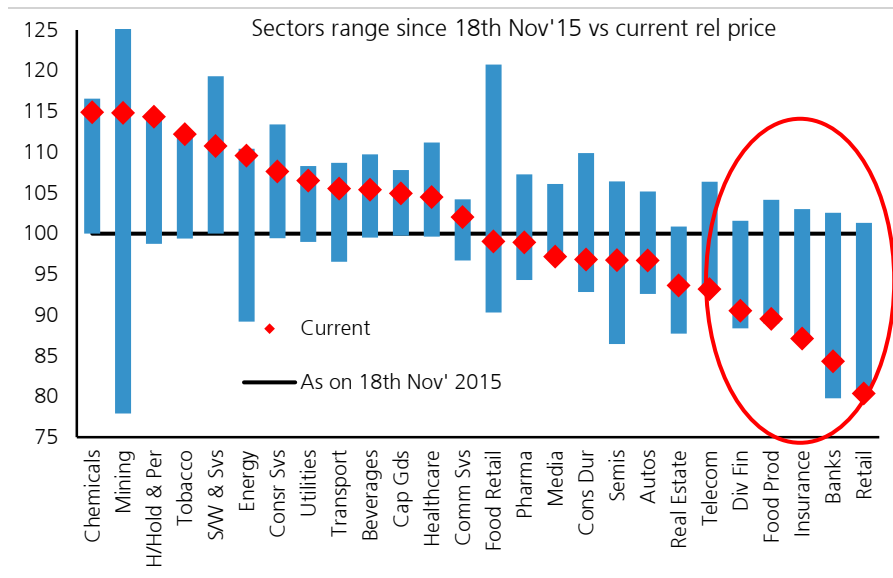
## SECTORS

### Sector performance RANGE since 18<sup>th</sup> November

Those sitting at a high include international defensives like Household, Tobacco and Chemicals and Energy. Real Estate has returned half of its price fall. BUT, General Retail, Financials and Food Producers are still at the lowest level during the period when the pound fell away from its normal trading relationships and was dominated by the referendum.

For more on our sector recommendations see: [European equity strategy - Sector Score-Card: upgrading Pharma - a unique defensive, 18 Apr 2016](#)

**Figure 14: Sector performance since November 2015. Defensives near the top and financials/domestics still near their lows (since 18<sup>th</sup> Nov)**



Source: Thomson Datastream, UBS European Equity Strategy

**Top: HH, Tobacco, Chemical and Energy**

**Mid way: Real Estate & Food Retail**

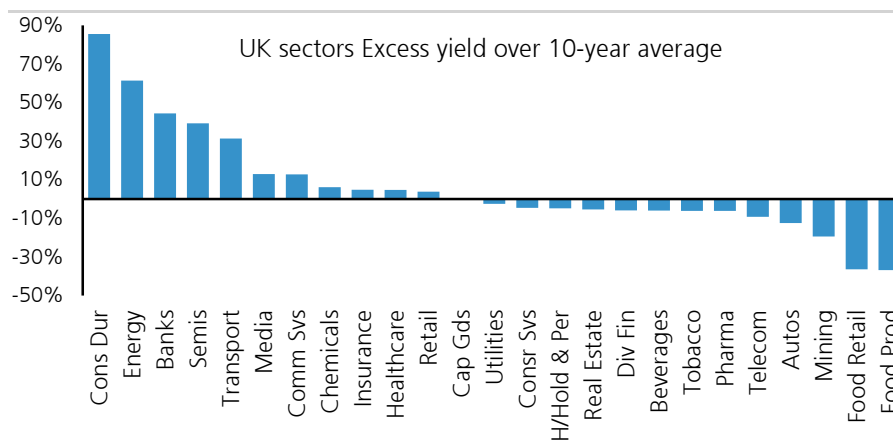
**Bottom: Financials (Yield curve); Retail (rising costs & slowing GDP)**

**Food Producers looks odd – international and defensive**

### Sector valuation table – excess yield vs 10-year average

If we look at where the excess dividend yield to the market sits, Consumer Durables (house-builders dominate this sector), Energy and Banks top the league table below.

**Figure 15: UK Sectors DY relative to market**



Source: Thomson Datastream, UBS European Equity Strategy

**Consumer Durables, Energy & Financials have excess yield**

**See Appendix for sector summary table and comments on risks of 'Leave'**

## What are the implications for market and sectors?

**Market:** For the market, we see fair value as significantly lower – at c.5,500 for the FTSE 100, but acknowledge that we are likely to see high levels of volatility over the coming days given the uncertainty and no official political "route-map" likely to be known for some time.

As we had been highlighting ahead of the result, the shift in the last few days has been fairly dramatic. As of Thursday night's close, the FTSE 100 was up 7% since the June 16 low. Also, over the same period the currency has moved sharply: GBP/USD is up from 1.40 to 1.49. So in dollar terms the FTSE was up 12% in just five trading sessions. This left us going into the result with asymmetric risk: far larger to the downside than the upside. Clearly, over time, policy response and greater political clarity may support the market, but this might not come immediately.

**Sectors:** We have surveyed the sector teams across the research department to ask if they believed investors' expectations were for a "remain" or "leave" vote. And then what the analysts thought the sector reaction would be in a "remain" or "leave" scenario – ranging from "strongly positive" to "strongly negative".

For nearly half of sectors this is likely to be "strongly negative" (15 out of the 31). In particular, **UK REITS, Banks, House-builders, Airlines** and **General Retailers** are likely to be negatively impacted. This fits with our sector comments in the back.

But there are some sectors where it may be a positive, such as **Steel, UK Engineering**/niche engineering companies and **Testing companies**, in most cases due to the expected fall in Sterling and high overseas sales exposure.

**We see near-term downside to the FTSE 100 to c.5,500...**

**...particularly given the sharp rally in the run-up to the vote**

**We surveyed the sector teams for the expected impact sector by sector...**

**"Leave" is likely to be strongly negative for UK REITs, House-builders, Airlines**

Figure 16: Potential Sector and Market impact on Outcome of Vote

		Outcome					
		REMAIN			LEAVE		
Investor expectations in sector	REMAIN	<b>Strongly positive</b> Airlines REITs UK Housebuilders			<b>Strongly negative</b> <b>FTSE100 5,500</b> Chemicals Leisure Med Tech Airlines Aerospace Autos Insurance Banks Housebuilders REITs UK General Retail UK Outsourcing Staffing B2B Dist'n and Rental		
	LEAVE	<b>Positive</b> <b>FTSE100 6,500</b> Med Tech Insurance Banks Utilities REITs Europe Construction Autos Leisure Div Financials General Retail Chemicals Media Consumer Staples Cap Goods Staffing UK Midcaps UK Outsourcing B2B Dist'n and Rental			<b>Negative</b> Media Software Utilities Construction Consumer Staples Cap Goods Div Financials REITs Europe UK Midcaps Oil		
		<b>Neutral</b> Aerospace Miners Steel Luxury Software Transport Testing UK Engineering Oil			<b>Neutral</b> <b>Positive</b> Luxury Transport Steel Miners UK Engineering Testing		

Source: UBS European Equity Research



## Brexit losers: relatively worse off on Leave vote

The below list was published on 13<sup>th</sup> April. We removed a couple of names by tightening up UK exposure criteria. The 7% out-performance is from original list.

**Figure 17: BREXIT losers sorted by who has not sold off yet to biggest losers.**

Name	Sector	Rating	Upside to Target Price (%)	Performance since Nov' 18 (%)	Average valuation change	DY 2016(%)	UK Exposure (%)	Contl Europe exp (%)	Analyst Comment
Morrisons	Food Retail	Neutral	6	22	17	2.9	100	0	Input costs & pop'n growth
Homeserve	Comm Svcs	Neutral	-9	18	12	3.1	48	30	Half sales to UK
DCC	Cap Goods	Buy	8	12	14	1.9	82	18	CHECK SALES
Fidessa	Software	Sell	-1	12	14	4.0	39	3	UK broking/banking
Persimmon	Cons. Dur	Buy	12	12	-2	6.0	100	0	None London
Bellway	Cons. Dur	Buy	30	9	-4	3.6	100	0	>20% London
Shaftesbury	Real Estate	Neutral	1	4	4	1.5	100	0	London office mkt: 17%
Berkeley Group	Cons. Dur	Buy	28	3	-10	6.1	100	0	80% London
Bovis Homes	Cons. Dur	Buy	28	2	-4	4.5	100	0	None London
Taylor Wimpey	Cons. Dur	Buy	16	1	-8	6.4	99	1	> 10% London
Howden Joinery Group	Cap Goods	Buy	14	0	-5	2.3	99	1	third costs in € or \$
Barratt Dev.	Cons. Dur	Buy	21	-2	-13	5.5	100	0	> 20% London
Tesco	Food Retail	Buy	44	-3	-8	0.0	71	14	Input cost & pop'n growth
Booker	Food Retail	Sell	-19	-3	-6	2.7	100	0	All UK
Sainsburys	Food Retail	Buy	35	-4	-4	4.3	100	0	Input cost & pop'n growth
Land Secs	Real Estate	Buy	12	-4	-8	2.9	100	0	Exp Lon office mkt: 46%
Lloyds Banking Group	Banks	Buy	22	-5	-2	8.2	95	5	GDP consumer / rates
Ryanair	Transport	Buy	22	-7	-13	2.3	37	63	UK travel
Domino's Pizza	Cons. Svcs	Neutral	-3	-8	-5	3.2	90	10	GDP consumer
Greggs	Food Retail	Buy	22	-9	-10	2.8	100	0	GDP consumer
British Land	Real Estate	Buy	14	-9	-12	3.5	100	0	Exp Lon office mkt: 45%
Derwent London	Real Estate	Buy	18	-10	-14	1.3	100	0	Exp Lon office mkt: 93%
Whitbread	Cons. Svcs	Neutral	0	-10	-10	2.2	97	3	UK business trips
easyJet	Transport	Neutral	4	-10	-14	4.8	47	51	less activity
Great Portland	Real Estate	Buy	19	-13	-15	1.2	100	0	Exp Lon office mkt: 77%
Capita PLC	Comm Svcs	Neutral	5	-13	-15	3.1	95	5	UK > 90% sales
Debenhams	Retail	Sell	-10	-14	-16	5.3	83	9	GDP/cons/ input costs
Standard Life	Insurance	Neutral	2	-15	-17	5.8	71	0	
MITIE Group	Comm Svcs	Neutral	4	-18	-15	4.5	96	0	UK > 90% sales
ITV	Media	Sell	-9	-20	-17	7.8	82	0	
Barclays	Banks	Buy	15	-20	-8	1.6	45	11	Passporting
RBS Group	Banks	Neutral	1	-22	-11	0.0	85	9	Passporting
Ocado	Retail	Buy	71	-28	-32	0.0	100	0	Expand EU
Restaurant Group	Cons. Svcs	Neutral (CBE)	-11	-47	-42	5.1	100	0	GDP consumer

Source: UBS European Equity Strategy

NOTE: Average valuation is an equal weighted measure of the change in Price to Book and Price to Earnings. Please let us know if want the bigger spreadsheet.

## Brexit winners: relatively better off on Leave vote

See below the list we published on 13<sup>th</sup> April. We removed a couple of names by tightening in on the UK exposure criteria.

Figure 18: BREXIT winners

Name	Sector	Rating	Upside to Target Price (%)	Performance since Nov' 18 (%)	Average valuation change	DY 2016 (%)	UK Exposure (%)	Contl Europe exp (%)	Analyst Comments
Sophos	Software	Buy	64	-37	-27	0.2	13	20	high overseas profits
Inmarsat	Telecom	Neutral	41	-31	-29	5.1	6	37	Bulk of sales in US\$
Imagination Tech	Semis	Buy	31	-22	-16	0.0	9	8	high overseas profits
Aveva Group	Software	Buy	9	-17	-12	2.0	5	45	high overseas profits
Aviva	Insurance	Neutral	3	-11	-9	5.4	52	39	52% of eps in non-GBP curr
Prudential	Insurance	Buy	16	-12	-13	3.1	18	0	82% of eps in non-GBP curr
AstraZeneca	Pharma	Buy	29	-12	-8	5.0	7	22	high overseas profits
Mondi	Paper	Buy	27	-9	-12	3.3	4	57	Best if weak GBP ' & euro' vs \$
ARM Holdings	Semis	Buy	18	-4	-5	1.0	1	10	high overseas profits
Vodafone Group	Telecom	Buy	34	-3	-6	5.1	15	51	50% EBITDA euro based
GKN	Autos	Buy	25	-4	-4	3.2	13	13	10% fall \$/£ is +5% profit
Diageo	Beverages	Buy	17	-2	-4	3.2	10	9	Big +ve/ spirits free trade
Hiscox	Insurance	Neutral	-1	0	3	2.6	44	13	56% earnings non GBP
Centrica	Utilities	Buy	20	1	4	5.7	54	2	high overseas profits
Meggitt	Cap Goods	Neutral	-5	2	-7	4.0	10	22	10% fall \$/£ is +5% profit
Imperial Brands	Tobacco	Buy	13	2	1	4.3	12	37	high overseas profits
GlaxoSmithKline	Pharma	Neutral	0	5	1	7.0	6	25	high overseas profits
InterContinental	Cons Svcs	Sell	-16	8	-1	2.2	5	20	If euro & £ weaker vs \$
Sage	Software	Sell	-15	14	10	2.3	22	30	high overseas profits
Rotork	Cap Goods	Neutral	-15	15	17	2.6	12	28	weak £ - competitive costs
Spirax-Sarco	Cap Goods	Buy	9	16	14	2.1	10	33	weak £ - competitive costs
Renishaw	Tech HW	Neutral	-5	16	20	2.4	5	21	weak £ - competitive costs
Intertek	Comm Svcs	Buy	16	19	16	1.8	9	18	uk cost / overseas sales
Aggreko	Comm Svcs	Sell	-32	20	20	2.3	8	7	uk cost / overseas sales
Ashmore	Div Fins	Neutral	-8	20	14	5.6	92	0	high overseas profits
Electrocomponents	Tech HW	Neutral	3	23	16	4.2	29	35	uk cost / overseas sales
Micro Focus	Software	Buy	17	24	14	2.3	5	18	high overseas profits

Source: UBS European Equity Strategy

NOTE: Average valuation is an equal-weighted measure of the change in Price to Book and Price to Earnings. Please let us know if want the bigger spreadsheet.

## Europe – what works in a crisis?

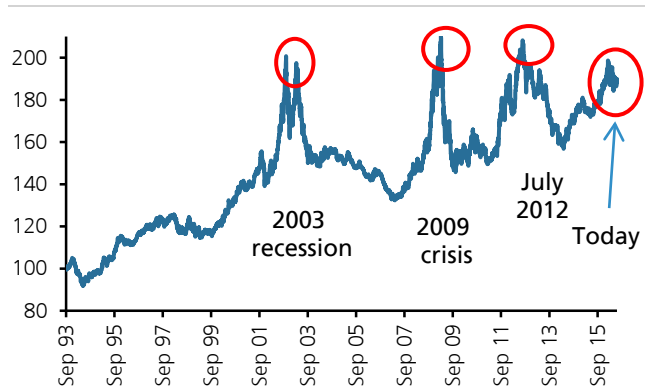
There is no precedent for an EU member leaving. We look at the escalation of the euro crisis when investors thought the end of the euro was nigh between March to July 2012 – before Mr Draghi stepped in. What worked?

**What worked in the 2012 euro crisis?**

### 1. Quality was a rock-star safe haven – but more expensive today

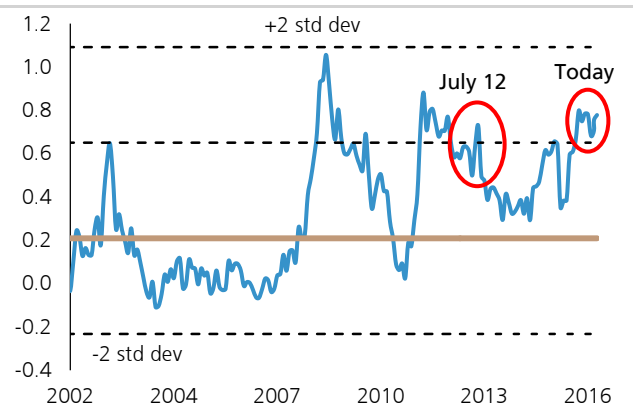
During the euro crisis, Quality was a winner and beat Value by c.50% from March to July 12 (Figure 21). If we look at the valuation gap between low and high vol stocks today, it is 20% higher today than in July 2012, so Quality is expensive. In summary, it is a haven, but things better be bad because we are paying up for it.

**Figure 19: Performance: Europe High vs Low Quality says we are still in a crisis, need bad news to go further**



Source: UBS Quant and European Equity Strategy

**Figure 20: Price to Book Gap between High Quality (or low vol stocks) and low Quality is > July 2012**



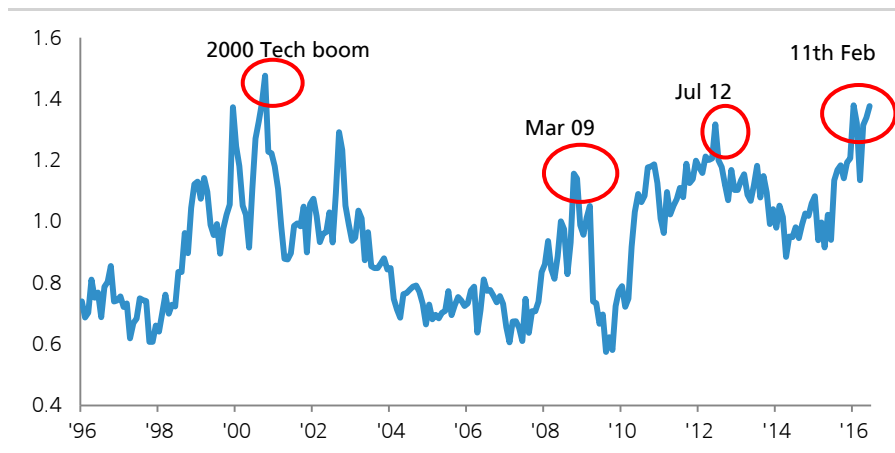
Source: UBS Quant and European Equity Strategy

## Value dispersion in Europe points to extreme fear

The pay-back you get for investing in Value has not been this high for 16 years.

**Investors really dislike value when worried**

**Figure 21: Value is back to crisis highs**



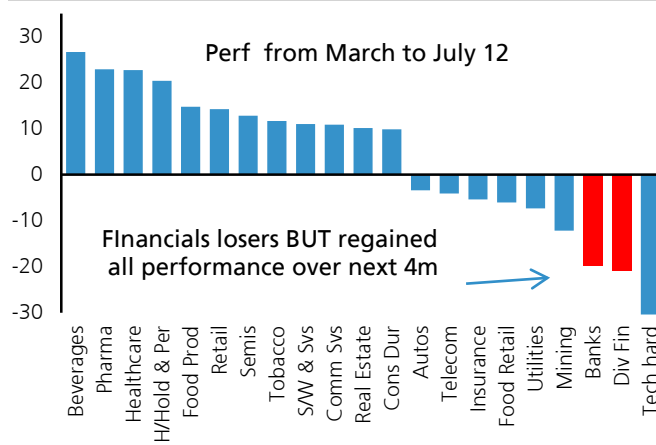
Source: UBS Quant and European Equity Strategy

**Political risk halted the February value rally**

## Defensives beat Cyclicals – but more expensive today

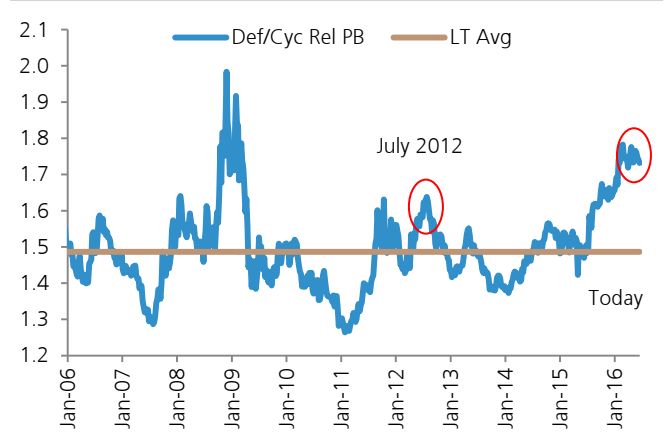
Defensives beat from March to July 2012 but are 7% more expensive now! If there is relief, and growth is resilient, cyclicals should bounce. Financials hurt most in 2012, but recovered it all. However, any resolution is likely to be less straightforward this time.

**Figure 22: Relative perf 4m before and after Draghi's intervention**



Source: European equity strategy, Datastream

**Figure 23: Defensives vs Cyclicals P/B gap – higher today!**

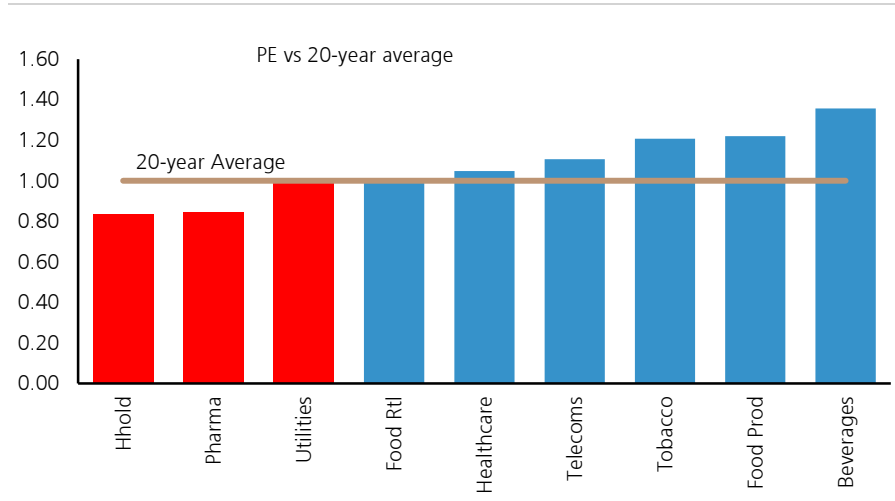


Source: European equity strategy, MSCI

## Cheaper defensives vs history: Price/Book vs 20-year average

We think Household Goods, Pharma and Utilities offer value. The first two are probably safer in a Leave backdrop.

**Figure 24: Defensives vs their history**

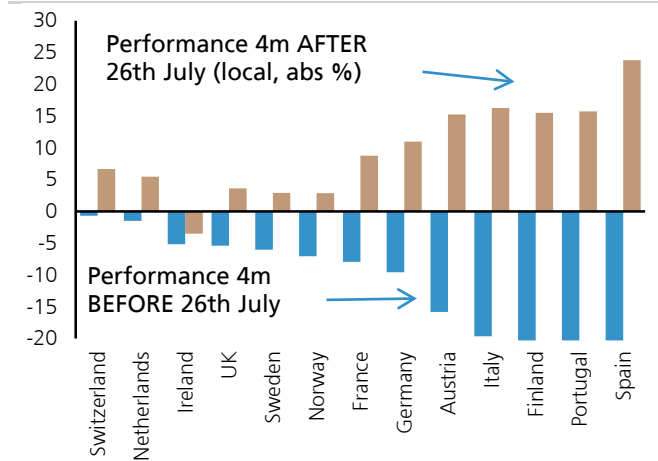


Source: Thomson Datastream, UBS European Equity Strategy

## 2. Switzerland best performer – cheaper today

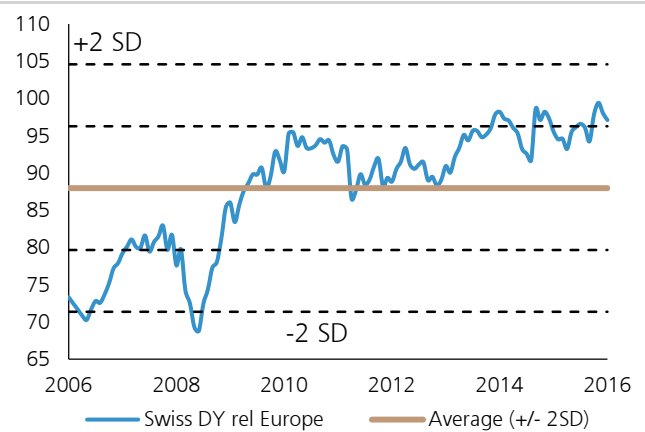
Switzerland was the best performer in March-July 2012 and has started to outperform since late April. While Switzerland has outperformed over the last 1-2 months, the dividend yield today is at market levels, so it is cheaper than in July 2012. The Swiss market is 50% defensives, made up of Food Producers and Pharma (which recently de-rated).

**Figure 25: Performance of countries between March and July 2012 (the peak of the euro crisis)**



Source: Thomson Datastream, UBS European Equity Strategy

**Figure 26: TODAY: Switzerland is cheaper: dividend yield relative to Europe near a decade high.**



Source: Thomson Datastream, UBS European Equity Strategy

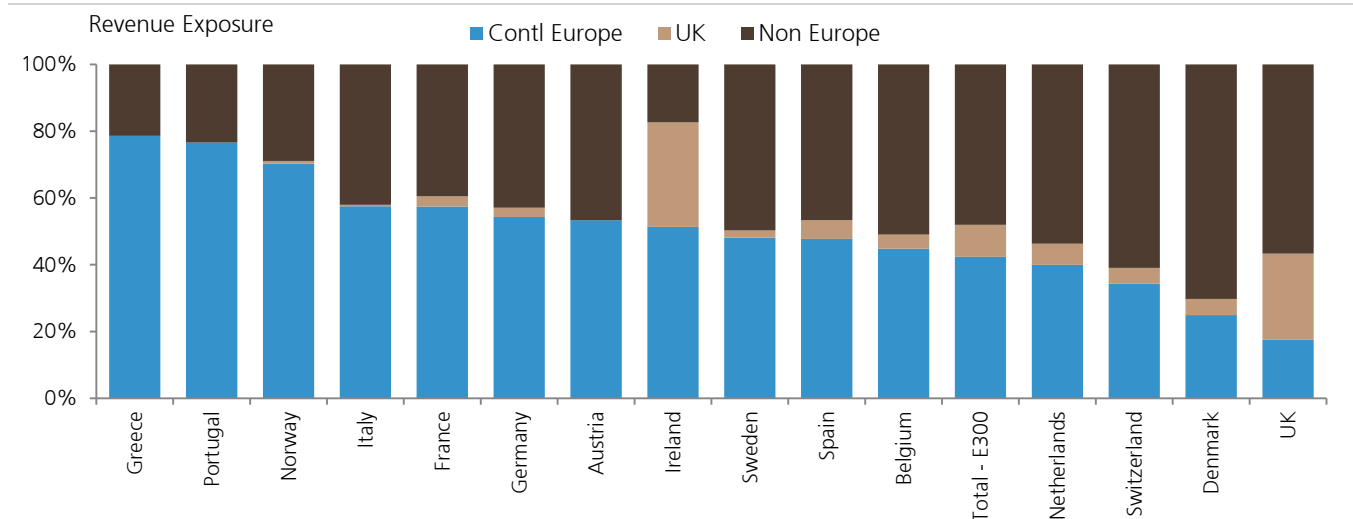
## Summary – UK least exposed to UK/Europe

The uncertainty facing the UK (and Europe?) is almost immeasurable, but ironically both Switzerland **and the UK** have the LEAST sales exposure to the UK and to Europe. This should offer some support that is not available to most Continental European countries, as below, if Europe as a whole suffers. The UK should also benefit if the risk-adjusted PE settles back up from the initial shock or 20% de-rating that we expect.

**Ironically the UK sells the least to the UK and Europe!**

**In line with Switzerland**

**Figure 27: Sales exposure by region – Dark Brown is NON-EUROPE exposure (for European large caps)**

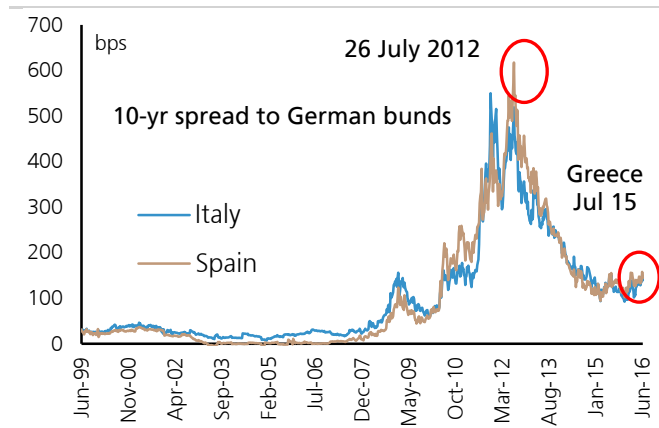


Source: UBS European Equity Strategy

## Watch-list – sovereigns / financials

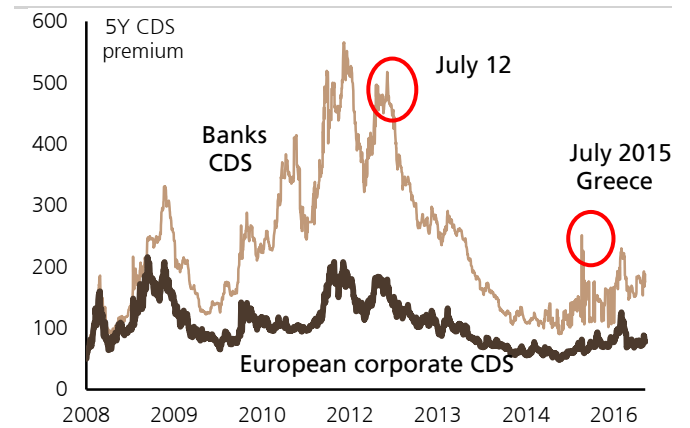
The items which have not moved as much – relative to the July 2012 crisis – are the sovereign spreads and banks CDS. This potentially tells us that Europe is in a better place. However, if things do become heavily disrupted, these may move further as well.

**Figure 28: Spanish bond yields hit 7.5% in 2012**



Source: Thomson Datastream, UBS European Equity Strategy

**Figure 29: Banks CDS peaked at 550 and over 500 in July 2012**



Source: Thomson Datastream, UBS European Equity Strategy

# Appendix 1

## Sector snapshot: what is important?

In late March we asked the analysts what was important. Keep in mind we will not know the full extent of this for months and probably years. But it is helpful to see what our analysts were and still are thinking.

- Slow growth or currency benefit (15 say growth the issue and 12 say FX helps);
- Rising trade barriers or falling labour mobility (9 worry about trade and 7 re free-flowing labour);
- A few even flagged a modest risk of stagflation if the pound falls too rapidly.

**Where do risks or benefits lie for sectors?**

**X = risk**

**√ = opportunity**

For detailed sector comments please see our note: [Full Brexit: Stocks, EU Risk and Swiss Protection](#), 13 April 2016

**Figure 30: SECTORS: where do bottom-up analysts see risks and opportunities**

	Slower UK growth & flatter Yield curve	Weaker Pound	Trade Barriers up/ passporting down	Lost labour mobility
Aerospace		√ (perhaps)		
Auto (European)	X	X	X	
Engineering		√		
Financials: Banking	X		X	X
Financials: Div Fin	X	√	X	
Financials - Insurance		√	X	
Food Retail	X	X (sourcing)		X (hard hire)
Hotels	X	Mixed		
House Builders (UK)	X	√ (int'l buyer)		X
Industrials (European)		X		
Luxury Goods (European)	–	Mixed	–	–
Media	X			
Mid Cap Consumer	X	√		
Paper & Packing		√		
Pharma	√	√ (stronger USD)		
Real Estate	X	√ (int'l buyer)		X
General Retail	X	X (USD sourcing)		
Software & IT Services	X	√	X	X
Support Serv Distrib & Rent	-	√	X	
Support Serv Outsource & Staff	X		X	
Support Serv Testing (more business)	X	√	√	
Tech Hardware		√	X	X (hard hire)
Telecom	X	√	X	
Travel & Leisure	X	√		X
Utilities (inc Europeans)		Mixed		

Source: UBS European Equity Strategy

## Bottom-up sector comments – who is exposed?

We asked our analysts what the impact of a Leave would be on sectors.

### More vulnerable

- **UK mid caps:** domestic (FTSE 250 sells about 50% in the UK) and consumer-based stocks are generally exposed to slowing GDP.
- **UK Banks:** hit by lower growth, consumer confidence, exposure to commercial and residential real-estate (HQ moves and slowing immigration) and potential disruptions to credit, either lower bond yields and/or wider credit spreads on perceived risk. Also passporting rights might disappear. Some concern over stagflation, but admittedly low probability.
- **Other Financials and Insurance:** asset managers and insurance companies see pass-porting as a material risk. This could limit growth and increase restructuring costs if they can no longer sell their products from the UK and if they need to set up shop in the EU.
- **Housebuilders and real estate:** slowing GDP, population and immigration growth hurt the sector. Stagflation would hit hard, but again a low probability.
- **General Retailers:** source goods in euros or USD, so sourcing costs go up.
- **Food Retailers:** pass more of the increased costs (as above) on to customers, **but 60% of their growth is driven by population increase.** So immigration is important!
- **Utilities:** domestic focus and link to directives coming from the EU (e.g. carbon emission), leads to regulatory uncertainty. Europeans like E.ON also have a big exposure to UK and a falling pound would hit profits.
- **Travel & Leisure is mixed:** if **GDP growth slows dramatically**, outweighing the pros of the UK bringing in more tourists due to a weak pound, it is a negative. FX good for Whitbread, but bad for TUI.
- **European Autos that sell to the UK:** if sales to the UK are greater than the amount produced in the UK, then profits should fall. Within European Autos, we think PSA would suffer the most. See Autos chart on EPS hit in Sector comments.

### Positively impacted

- **Engineering, technology and semi-conductor companies** with niche products that sell predominantly outside of the UK.
- **Travel & Leisure** wins from a **weak pound** as it brings more international spenders and stay-cations. But TUI suffers from exposure to the euro.

### Less impacted

- Mining, Pharma and Oil and Gas.

Excerpt from our 13<sup>th</sup> April note

### Domestic

Flatter yield curve, slower GDP, and risk to Real Estate

Asset managers – passporting rights

Population growth slows

USD apparel costs

Food Retail needs immigration

Utilities – UK regulatory risk from EU directives. Pound hurts E.ON

Travel & Leisure – slower GDP vs weaker pound

European autos suffer

See European autos chart in 13<sup>th</sup> April note

Winners: global niche players

Relatively immune: Mining, Oil & Gas and Pharma (except FX)



## Appendix 2: Geographic Sales

Figure 31: FTSE 100 stocks exposure

Name	Sector	Market cap EUR bn	Rating	Price	Rel perf to FTSE100 from 18th Nov (%)	UK exposure (%)	Non UK Exposure exp (%)	US exposure (%)	ROW exposure (%)
Barratt Dev.	Cons Dur	7.4	Buy	568	-1	100	0	0	0
Berkeley Group	Cons Dur	5.8	Buy	3241	4	100	0	0	0
British Land	Real Estate	10.1	Buy	753	-9	100	0	0	0
Intu Properties	Real Estate	5.4	Buy	312	-3	100	0	0	0
Land Secs	Real Estate	12.2	Buy	1188	-4	100	0	0	0
Morrisons	Food Retail	5.7	Neutral	188	22	100	0	0	0
Persimmon	Cons Dur	8.3	Buy	2086	12	100	0	0	0
Sainsburys	Food Retail	6.1	Buy	245	-3	100	0	0	0
St James's Place	Insurance	6.2	Neutral	909	-6	100	0	0	0
Travis Perkins	Capital Goods	6.1	Buy	1894	-3	100	0	0	0
UU.	Utilities	8.5	Neutral	957	0	100	0	0	0
Taylor Wimpey	Cons Dur	8.0	Buy	188	2	99	1	0	0
Standard Life	Insurance	8.7	Neutral	341	-15	98	0	0	2
SSE PLC	Utilities	19.6	Buy	1538	5	97	3	0	0
Whitbread	Cons Svs	9.6	Neutral	4070	-9	97	0	0	3
Capita PLC	Comm Svs	9.2	Neutral	1072	-13	95	5	0	0
Legal & General	Insurance	18.0	Sell	234	-12	95	0	5	0
Lloyds Banking Group	Banks	65.4	Buy	71	-4	95	5	0	0
Sky	Media	19.6	Buy	884	-19	94	6	0	0
Next	Retail	10.7	Suspended	5460	-30	93	5	0	2
Admiral	Insurance	6.9	Neutral	1994	23	90	9	0	1
Marks & Spencer	Retail	7.7	Buy	361	-30	89	0	0	11
SVT	Utilities	6.9	Neutral	2240	2	87	0	8	5
RBS Group	Banks	37.4	Neutral	247	-22	85	9	2	4
ITV	Media	11.2	Sell	215	-20	83	0	0	17
DCC	Capital Goods	7.4	Buy	6460	12	82	18	0	0
BT Group	Telecom	55.7	Neutral	431	-11	77	13	6	3
Hammerson	Real Estate	5.9	Buy	582	-2	77	23	0	0
Tesco	Food Retail	17.6	Buy	166	-2	71	14	0	16
Centrica	Utilities	13.9	Buy	213	1	54	2	41	4
Aviva	Insurance	23.3	Neutral	443	-11	52	39	5	4
National Grid	Utilities	48.1	Sell	984	7	47	0	53	0
easyJet	Transport	7.8	Neutral	1517	-10	47	51	0	2
Barclays	Banks	39.7	Buy	182	-20	45	11	24	19
A. B. Foods	Food Prod	28.8	Neutral	2802	-18	43	11	6	40
Kingfisher	Retail	11.0	Buy	364	5	42	55	0	3
RSA	Insurance	6.4	Neutral	484	12	41	25	22	12
Merlin	Cons Svs	5.7	Buy	430	5	39	25	22	13
Schroders	Div Financials	9.3	Buy	2639	-10	38	16	8	38
IAG	Transport	13.5	Buy	510	-11	34	16	14	35
TUI AG (UK)	Cons Svs	7.1	Buy	1029	-7	34	58	5	3
Johnson Matthey	Chemicals	7.7	Neutral	2963	21	26	17	30	27

Source: UBS European Equity Strategy

Figure 32: FTSE 100 stocks exposure (continued...)

Name	Sector	Market cap EUR bn	Rating	Price	Rel perf to FTSE100 from 18th Nov (%)	UK exposure (%)	Non UK Exposure exp (%)	US exposure (%)	ROW exposure (%)
Old Mutual	Insurance	14	Buy	193	-3	25	4	2	68
HSBC	Banks	114	Buy	444	-15	24	9	13	54
Sage	Software	9	Sell	624	14	22	30	24	24
BP	Energy	93	Buy	383	1	22	0	34	44
Experian Group	Comm Svs	16	Neutral	1322	11	21	5	51	23
BAE SYSTEMS	Capital Goods	21	Buy	503	6	20	13	37	30
Prudential	Insurance	44	Buy	1322	-11	18	0	33	48
Ashtead	Capital Goods	7	Neutral	1035	1	17	0	83	0
Vodafone Group	Telecom	75	Buy	216	-3	15	51	0	34
Wolseley	Capital Goods	12	Buy	3770	3	13	28	58	0
GKN	Autos	6	Buy	285	-4	13	13	31	43
Imperial Brands	Tobacco	45	Buy	3631	2	12	50	8	30
Rolls-Royce	Capital Goods	15	Buy	636	17	12	24	29	36
Anglo American	Mining	11	Sell (CBE)	671	50	11	17	3	69
Smith & Nephew	Health Care	14	Neutral	1161	5	11	23	43	23
Burberry	Cons Dur	7	Buy	1133	-11	11	25	23	41
Compass Group	Cons Svs	28	Neutral	1301	24	9	25	46	19
Carnival Plc	Cons Svs	34	Buy	3458	2	9	26	50	15
Intertek	Comm Svs	7	Buy	3142	19	9	18	30	43
AstraZeneca	Pharma	63	Buy	3887	-12	7	22	42	29
Reckitt Benckiser	Hhold & Per	65	Buy	6807	8	7	31	19	43
Inmarsat	Telecom	4	Neutral	735	-30	6	37	30	26
Unilever Plc	Hhold & Per	119	Neutral	3159	13	6	19	16	59
GlaxoSmithKline	Pharma	89	Neutral	1420	6	6	25	33	35
Standard Chart.	Banks	24	Sell	567	2	6	1	5	88
InterContinental	Cons Svs	7	Sell	2652	8	5	20	47	28
Diageo	Beverages	60	Buy	1843	-2	5	16	34	45
Shire Pharmaceutical	Pharma	31	Buy	4031	-13	4	0	69	27
Mondi	Paper	8	Buy	1340	-9	4	57	11	28
CRH	Const Mats	22	Buy	2035	15	3	40	52	5
BHP Billiton Plc	Mining	59	Buy	854	-3	3	10	13	75
Glencore	Mining	25	Buy	149	60	2	32	23	43
Rio Tinto Plc	Mining	50	Buy	2068	-8	1	9	16	74
SABMiller	Beverages	88	Neutral	4267	7	1	3	18	78
Tobacco	Tobacco	103	Buy	4255	12	1	23	5	71
ARM Holdings	Semis	19	Buy	1021	-4	1	10	38	51
Antofagasta	Mining	5	Sell	425	-15	0	12	5	82
Coca-Cola Hellenic	Beverages	7	Sell	1399	-12	0	37	0	63
Fresnillo	Mining	12	Neutral	1216	77	0	0	0	100
Randgold Resources	Mining	8	Neutral	6400	63	0	0	0	100
Royal Dutch Shell	Energy	190	Buy	1811	11	0	39	26	35

Source: UBS European Equity Strategy

## Appendix 3: European names exposed to UK

Figure 33: EUROPEAN NAMES WITH UK sales exposure

Company Name	Country	Sector	Rating	Price	Rel perf to FTSE100 from 18th Nov (%)	Mkt Cap EUR bn	UK Sales exposure (%)
DCC Plc	Ireland	Capital Goods	Buy	6460	12	7	82
Bank of Ireland	Ireland	Banks	Neutral	0	-10	8	40
Ryanair	Ireland	Transportation	Buy	13	3	18	37
Ferrovial	Spain	Capital Goods	Neutral	19	-9	14	32
Kerry Group	Ireland	Food, Beverage & Tobacco	Buy	80	20	14	29
Aegon n.v.	Netherlands	Insurance	Not Rated	4	-13	9	28
Deutsche Boerse	Germany	Diversified Financials	Buy	80	10	16	25
Iberdrola	Spain	Utilities	Neutral	6	2	37	23
Capgemini	France	Software & Services	Buy	87	15	15	20
RWE	Germany	Utilities	Sell	13	30	8	19
Hannover Re	Germany	Insurance	Neutral	97	-1	12	19
Ageas	Belgium	Insurance	Not Rated	35	-5	7	18
SES	Luxembourg	Media	Neutral	19	-21	8	18
E.ON	Germany	Utilities	Buy (UR)	9	13	18	16
Deutsche Bank	Germany	Diversified Financials	Neutral	15	-32	21	16
EDF	France	Utilities	Sell	12	-15	22	15
Coloplast A/S	Denmark	Health Care Equipment & Services	Sell	492	-1	14	15
Santander	Spain	Banks	Neutral	4	-12	58	13
Telefonica	Spain	Telecommunication Services	Buy	9	-16	41	12
Swiss Re	Switzerland	Insurance	Neutral	84	-4	29	12
Adecco	Switzerland	Commercial Services & Supplies	Neutral	59	-6	9	12
Zurich Insurance Group	Switzerland	Insurance	Neutral	238	-2	33	12
Thales	France	Capital Goods	Neutral	75	20	16	11
HeidelbergCement	Germany	Materials	Neutral	74	12	14	10
Airbus Group SE	France	Capital Goods	Buy	54	-9	43	10
Hugo Boss	Germany	Consumer Durables & Apparel	Neutral	56	-29	4	10
PSA Group	France	Automobiles & Components	Neutral	14	-6	11	10
BMW	Germany	Automobiles & Components	Neutral	72	-18	47	10

Source: UBS European Equity Strategy

The Brexit Winners and Losers baskets were published on the 13<sup>th</sup> April 2016 and we attach the performance below of each basket from that date. There were a few significant outliers in both lists.

*“The indicated performance returns are based on capital appreciation, excluding dividends and transaction costs such as commissions, fees, margin interest and interest charges. Actual transactions adjusted for such transaction costs will result in reduced total returns. Prices of stocks in this performance reflect closing prices. Since its inception on 13 April 2016, the Brexit-related stocks selected as 'winners' have fallen by 3.2%, and those selected as 'losers' have risen by 0.17%. Over the same period, the FTSE 100 Index has fallen by 0.4%. A complete record of all the recommendations upon which the report is based is available from UBS upon written request. Past performance is not an indication of future results.”*

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Risks include macroeconomic variables (such as GDP growth rates and inflation), economic slowdown, a weakening currency, global economic events, and government policy changes.

Unless otherwise indicated, please refer to the Valuation and Risk sections within the body of this report. For a complete set of disclosure statements associated with the companies discussed in this report, including information on valuation and risk, please contact UBS Securities LLC, 1285 Avenue of Americas, New York, NY 10019, USA, Attention: Investment Research.

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12-Month Rating	Definition	Coverage <sup>1</sup>	IB Services <sup>2</sup>
<b>Buy</b>	FSR is > 6% above the MRA.	49%	32%
<b>Neutral</b>	FSR is between -6% and 6% of the MRA.	38%	26%
<b>Sell</b>	FSR is > 6% below the MRA.	14%	19%
Short-Term Rating	Definition	Coverage <sup>3</sup>	IB Services <sup>4</sup>
<b>Buy</b>	Stock price expected to rise within three months from the time the rating was assigned because of a specific catalyst or event.	<1%	<1%
<b>Sell</b>	Stock price expected to fall within three months from the time the rating was assigned because of a specific catalyst or event.	<1%	<1%

Source: UBS. Rating allocations are as of 31 March 2016.

1:Percentage of companies under coverage globally within the 12-month rating category.

2:Percentage of companies within the 12-month rating category for which investment banking (IB) services were provided within the past 12 months.

3:Percentage of companies under coverage globally within the Short-Term rating category.

4:Percentage of companies within the Short-Term rating category for which investment banking (IB) services were provided within the past 12 months.

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**UBS Limited:** Karen Olney, CFA; Nick Nelson; Joao Toniato; Andras Nagy, CFA.

## Company Disclosures

Company Name	Reuters	12-month rating	Short-term rating	Price	Price date
<b>Aggreko</b>	AGGK.L	Sell	N/A	1,205p	23 Jun 2016
<b>ARM Holdings Plc</b> <sup>4, 5, 7, 14, 16</sup>	ARM.L	Buy	N/A	1,019p	23 Jun 2016
<b>Ashmore Group PLC</b> <sup>4, 7, 14</sup>	ASHM.L	Neutral	N/A	309p	23 Jun 2016
<b>AstraZeneca</b> <sup>7, 16</sup>	AZN.L	Buy	N/A	3,899p	23 Jun 2016
<b>Aveva Group</b>	AVV.L	Buy	N/A	1,735p	23 Jun 2016
<b>Aviva</b> <sup>5, 7, 13, 16</sup>	AV.L	Neutral	N/A	445p	23 Jun 2016
<b>Barclays</b> <sup>3a, 3d, 4, 5, 7, 16, 18b</sup>	BARC.L	Buy	N/A	187p	23 Jun 2016
<b>Barratt Developments</b> <sup>13</sup>	BDEV.L	Buy	N/A	578p	23 Jun 2016
<b>Bellway</b> <sup>13</sup>	BWY.L	Buy	N/A	2,734p	23 Jun 2016
<b>Berkeley Group Holdings</b> <sup>4, 5, 7, 14</sup>	BKGH.L	Buy	N/A	3,285p	23 Jun 2016
<b>Booker Group PLC</b>	BOK.L	Sell	N/A	180p	23 Jun 2016
<b>Bovis Homes</b>	BVS.L	Buy	N/A	1,024p	23 Jun 2016
<b>British Land</b> <sup>4, 7, 14, 18a</sup>	BLND.L	Buy	N/A	763p	23 Jun 2016
<b>Capita PLC</b> <sup>7</sup>	CPI.L	Neutral	N/A	1,090p	23 Jun 2016
<b>Centrica</b> <sup>2, 4, 5, 7, 13, 14</sup>	CNA.L	Buy	N/A	218p	23 Jun 2016
<b>DCC Plc</b>	DCC.L	Buy	N/A	6,550p	23 Jun 2016
<b>Debenhams</b> <sup>13</sup>	DEB.L	Sell	N/A	68p	23 Jun 2016
<b>Derwent London</b> <sup>14</sup>	DLN.L	Buy	N/A	3,430p	23 Jun 2016
<b>Diageo</b> <sup>4, 5, 6b, 7, 16</sup>	DGE.L	Buy	N/A	1,833p	23 Jun 2016
<b>Domino's Pizza</b> <sup>13</sup>	DOM.L	Neutral	N/A	1,029p	23 Jun 2016
<b>E.ON</b> <sup>4, 7</sup>	EONGn.DE	Buy (UR)	N/A	€9.31	23 Jun 2016
<b>easyJet</b> <sup>14</sup>	EZJ.L	Neutral	N/A	1,533p	23 Jun 2016
<b>Electrocomponents</b> <sup>4, 7, 14</sup>	ECM.L	Neutral	N/A	286p	23 Jun 2016
<b>Essilor International</b> <sup>7</sup>	ESSI.PA	Buy	N/A	€118.30	23 Jun 2016
<b>Fidessa Group plc</b>	FDSA.L	Sell	N/A	2,222p	23 Jun 2016
<b>GKN</b> <sup>2, 4, 14</sup>	GKN.L	Buy	N/A	288p	23 Jun 2016
<b>GlaxoSmithKline</b> <sup>5, 7, 16</sup>	GSK.L	Neutral	N/A	1,429p	23 Jun 2016
<b>Great Portland Estates</b>	GPOR.L	Buy	N/A	771p	23 Jun 2016
<b>Greggs</b> <sup>4, 7, 14</sup>	GRG.L	Buy	N/A	1,088p	23 Jun 2016
<b>Heineken</b>	HEIN.AS	Buy	N/A	€81.27	23 Jun 2016
<b>Hiscox</b> <sup>2, 4, 7, 14</sup>	HSX.L	Neutral	N/A	1,016p	23 Jun 2016
<b>Homeserve plc</b> <sup>14</sup>	HSV.L	Neutral	N/A	505p	23 Jun 2016
<b>Howden Joinery Group Plc</b> <sup>4, 7, 14</sup>	HWDN.L	Buy	N/A	511p	23 Jun 2016
<b>Imagination Technologies</b>	IMG.L	Buy	N/A	181p	23 Jun 2016
<b>Imperial Brands</b>	IMB.L	Buy	N/A	3,678p	23 Jun 2016
<b>Inmarsat</b>	ISA.L	Neutral	N/A	756p	23 Jun 2016
<b>InterContinental Hotels Group</b> <sup>16</sup>	IHG.L	Sell	N/A	2,723p	23 Jun 2016
<b>Intertek Group plc</b>	ITRK.L	Buy	N/A	3,215p	23 Jun 2016
<b>ITV plc</b>	ITV.L	Sell	N/A	219p	23 Jun 2016
<b>J Sainsbury PLC</b> <sup>2, 3b, 4, 5, 7, 14, 17</sup>	SBRY.L	Buy	N/A	247p	23 Jun 2016
<b>Land Securities</b> <sup>5, 7, 14</sup>	LAND.L	Buy	N/A	1,190p	23 Jun 2016

Company Name	Reuters	12-month rating	Short-term rating	Price	Price date
<b>Lloyds Banking Group</b> <sup>2, 4, 5, 7, 14, 16</sup>	LLOY.L	Buy	N/A	72p	23 Jun 2016
<b>Meggitt</b>	MGGT.L	Neutral	N/A	397p	23 Jun 2016
<b>Micro Focus Intl Plc</b> <sup>2, 4, 13</sup>	MCRO.L	Buy	N/A	1,611p	23 Jun 2016
<b>MITIE Group</b> <sup>4, 7, 14</sup>	MTO.L	Neutral	N/A	271p	23 Jun 2016
<b>Mondi</b> <sup>14, 18c</sup>	MNDI.L	Buy	N/A	1,363p	23 Jun 2016
<b>Nestlé</b> <sup>4, 5, 7, 22</sup>	NESN.S	Neutral	N/A	CHF72.35	23 Jun 2016
<b>Ocado Group Plc</b>	OCDO.L	Buy	N/A	253p	23 Jun 2016
<b>Persimmon</b>	PSN.L	Buy	N/A	2,098p	23 Jun 2016
<b>Prudential</b> <sup>2, 4, 5, 6a, 7, 14, 16</sup>	PRU.L	Buy	N/A	1,359p	23 Jun 2016
<b>PSA Group</b>	PEUP.PA	Neutral	N/A	€14.31	23 Jun 2016
<b>RBS Group</b> <sup>2, 4, 5, 16</sup>	RBS.L	Neutral	N/A	251p	23 Jun 2016
<b>Renishaw</b> <sup>7, 14</sup>	RSW.L	Neutral	N/A	2,188p	23 Jun 2016
<b>Restaurant Group Plc</b> <sup>20</sup>	RTN.L	Neutral (CBE)	N/A	350p	23 Jun 2016
<b>Roche</b> <sup>2, 4, 5, 6a, 7, 22</sup>	ROG.S	Buy	N/A	CHF246.50	23 Jun 2016
<b>Rotork</b> <sup>14</sup>	ROR.L	Neutral	N/A	203p	23 Jun 2016
<b>RSA Insurance Group</b> <sup>5, 7, 13</sup>	RSA.L	Neutral	N/A	484p	23 Jun 2016
<b>Ryanair</b> <sup>13, 16</sup>	RYA.I	Buy	N/A	€13.68	23 Jun 2016
<b>Sage Group</b>	SGE.L	Sell	N/A	627p	23 Jun 2016
<b>Shaftesbury</b>	SHB.L	Neutral	N/A	959p	23 Jun 2016
<b>Sophos Group PLC</b> <sup>2, 4</sup>	SOPH.L	Buy	N/A	179p	23 Jun 2016
<b>Spirax-Sarco</b>	SPX.L	Buy	N/A	3,535p	23 Jun 2016
<b>Standard Life</b> <sup>7</sup>	SL.L	Neutral	N/A	343p	23 Jun 2016
<b>Taylor Wimpey</b> <sup>13</sup>	TW.L	Buy	N/A	192p	23 Jun 2016
<b>Telenor</b>	TEL.OL	Buy	N/A	NKr133.00	23 Jun 2016
<b>Tesco PLC</b> <sup>7</sup>	TSCO.L	Buy	N/A	168p	23 Jun 2016
<b>TUI AG (UK)</b>	TUIT.L	Buy	N/A	1,042p	23 Jun 2016
<b>Vodafone Group</b> <sup>2, 3c, 4, 5, 7, 14, 16</sup>	VOD.L	Buy	N/A	218p	23 Jun 2016
<b>Whitbread</b>	WTB.L	Neutral	N/A	4,191p	23 Jun 2016
<b>WM Morrison Supermarkets PLC</b>	MRW.L	Neutral	N/A	190p	23 Jun 2016

Source: UBS. All prices as of local market close.

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