



## Hedging Brexit With UK Equities

*This document is a marketing communication provided for information purposes and does not constitute investment advice or recommendation. Potential investors should consult their financial adviser to assess suitability before investing.*

*Data as of 30 June 2016, 4 p.m. Paris time.*

## KEY TAKEAWAYS

- We present a basket of stocks that should benefit from the GBP depreciation. These picks already have strong fundamentals and we believe that they would benefit further from the Brexit and its concomitant currency devaluation.

ISIN	Company	Sector	Cap (m€)	Reco	Consensus Target Price	Currency	Potential Upside	Price
GB00B03MLX29	<b>Royal Dutch Shell Plc</b>	Energy	196 642	<b>BUY</b>	<b>31.60*</b>	GBP	<b>58%</b>	20.00
GB0009252882	<b>GlaxoSmithKline plc</b>	Health Care	92 550	<b>BUY</b>	<b>15.50*</b>	GBP	<b>-1%</b>	15.60
JE00B2QKY057	<b>Shire PLC</b>	Health Care	48 950	<b>ADD</b>	5 919.19	GBP	<b>32%</b>	44.72
GB00B08SNH34	<b>National Grid plc</b>	Utilities	48 426	<b>ADD</b>	962.85	GBP	<b>-9%</b>	10.61
GB0007099541	<b>Prudential plc</b>	Financials	39 407	<b>ADD</b>	1 554.31	GBP	<b>24%</b>	12.56
GB0031348658	<b>Barclays PLC</b>	Financials	28 418	<b>ADD</b>	181.15	GBP	<b>31%</b>	1.38
JE00B4T3BW64	<b>Glencore plc</b>	Materials	25 723	<b>ADD</b>	173.17	GBP	<b>17%</b>	1.47
JE00B8KF9B49	<b>WPP Plc</b>	Consumer Discretionary	24 328	<b>BUY</b>	<b>18.21*</b>	GBP	<b>17%</b>	15.53
GB0002634946	<b>BAE Systems plc</b>	Industrials	19 541	<b>ADD</b>	540.46	GBP	<b>7%</b>	5.06
GB0000595859	<b>ARM Holdings plc</b>	Information Technology	18 652	<b>ADD</b>	1 141.55	GBP	<b>5%</b>	10.88
JE00BFNWW485	<b>Wolseley plc</b>	Industrials	11 727	<b>ADD</b>	4 117.99	GBP	<b>8%</b>	38.15
GB0007958233	<b>Senior plc</b>	Industrials	1 025	<b>BUY</b>	<b>2.65*</b>	GBP	<b>32%</b>	2.01

\*SGPB Target Price. Data as of 29-06-2016.

Sources: SGPB, FactSet.

## TABLE OF CONTENTS

Key Takeaways	p. 2
Context	p. 4
Basket of Stocks	p. 5
Market Data and Valuations	p.6
Financial Terms And Acronyms	p.8

Disclaimers & Disclosures

## CONTEXT

- On 24 June, the UK voted to exit the European Union (EU) through a referendum commonly known as the 'Brexit'. While prior polls had already indicated a fair chance that the UK would vote in favour of leaving, the final outcome of the referendum still came as a shock to the markets and even to the camp advocating a Brexit, as it appears to have no concrete exit plan in place.
- Although some might argue that there still is a chance that the UK remains in the EU after all, we believe that at this stage, a Brexit scenario is by far the most likely one as politicians are already determining exit timing and speed. Economists are puzzled on the Brexit's future effects on the European economy and the UK in particular, where an economic slowdown seems inevitable, as does a rise in the equity premium of European stocks.
- This uncertainty led to a chaos in the financial markets, with the MSCI World index correcting 7%, STOXX 600 falling 10.9% and FSTE 100 dropping 5.6% in the two trading session following the poll announcement. However, the markets were quick to rebound and were nearly back to their previous levels in the next three sessions. UK's FTSE 100 index at the time of writing was trading above the pre-referendum levels. We expect the volatility in the equity markets to persist over the coming days and believe that it presents investors an opportunity to accumulate UK stocks that have revenues in the USD or JPY.
- With this background, we present a basket of stocks that should benefit from the GBP depreciation. These picks already have strong fundamentals and we believe that they would benefit further from the Brexit and its concomitant currency devaluation.

## BASKET OF STOCKS

## Revenue Exposure By Region (top 3 countries)

Isin	Names	% sales outside UK*	#1	% of sales	#2	% of sales	#3	% of sales	FY 2015 Revenue* (m£)
GB0000595859	ARM Holdings PLC	72%	US	38%	China	19%	Taiwan	15%	1,000
GB0002634946	BAE Systems PLC	57%	US	36%	UK	22%	Saudi Arabia	21%	16,800
GB0031348658	Barclays PLC **	36%	UK	47%	US	25%	South Africa	11%	24,000
GB0009252882	GlaxoSmithKline PLC	51%	US	34%	China	11%	Germany	5%	24,500
JE00B4T3BW64	Glencore PLC ***	39%	China	18%	US	14%	Japan	7%	111,600
GB00B08SNH34	National Grid PLC	50%	US	50%	UK	50%	-	-	15,100
GB0007099541	Prudential PLC	51%	US	40%	UK	35%	China	11%	40,800
GB00B03MM408	Royal Dutch Shell PLC	40%	US	19%	China	15%	Germany	6%	163,900
GB0007958233	Senior PLC	60%	US	55%	UK	16%	Canada	5%	850
JE00B2QKY057	Shire PLC	80%	US	73%	China	5%	Japan	2%	4,400
JE00BFNWV485	Wolseley PLC	68%	US	63%	UK	15%	Canada	6%	13,300
JE00B8KF9B49	WPP PLC	43%	US	35%	UK	15%	China	8%	12,200

Data as of FY 2015 - Sources: Factset, SGPB.

\* % outside UK based on the top 3 main countries

\*\* This is not an exporter as it earns and spends in USD (mainly Corporate and Investment Banking and Barclaycard businesses) due to which net currency benefit would be low.

\*\*\* Majority of sales are transacted in USD and also the company reports in USD

## VALUATIONS

DESCRIPTION			VALUATION					GROWTH				PROFITABILITY			
Isin	Company	Cap (m€)	EV/Sales (e)		P/E (e)			Div. Yield	Sales Growth		EPS Growth		Op Margin*	Net Margin	ROE
			FY1x	FY2x	FY1x	FY2x	10Yx		FY1%	FY2%	FY1%	FY2%			
GB0000595859	<b>ARM Holdings plc</b>	18 652	12.7	11.1	31.2	27.2	60.2	0.9	18.9	10.3	16.1	12.8	51.4	42.7	22.8
GB0002634946	<b>BAE Systems plc</b>	19 541	1.0	0.9	13.1	12.3	21.9	4.2	2.4	4.4	-2.7	5.3	11.6	5.2	41.3
GB0031348658	<b>Barclays PLC</b>	28 418	na	na	11.3	7.2	16.0	2.2	-20.3	6.4	-33.3	77.4	na	9.6	3.7
GB0009252882	<b>GlaxoSmithKline plc</b>	92 550	3.5	3.3	17.4	16.7	16.8	5.2	7.8	2.9	17.6	4.2	32.0	16.7	102.5
JE00B4T3BW64	<b>Glencore plc</b>	25 723	0.4	0.3	38.9	27.2	25.3	0.0	-3.3	11.9	-52.6	64.9	5.2	0.5	1.7
GB00B08SNH34	<b>National Grid plc</b>	48 426	4.1	4.1	16.9	16.9	12.8	4.1	4.9	1.1	-0.8	1.3	35.8	14.8	17.4
GB0007099541	<b>Prudential plc</b>	39 407	0.9	0.9	10.8	9.8	17.3	3.4	9.3	6.0	-6.7	10.0	11.1	7.8	20.5
GB00B03MM408	<b>Royal Dutch Shell Plc C</b>	196 642	1.2	1.0	24.8	14.3	16.2	6.8	-2.6	20.9	-29.1	70.8	15.0	3.6	4.5
GB0007958233	<b>Senior plc</b>	1 025	1.2	1.1	12.3	11.3	13.8	3.3	2.0	4.8	-15.2	8.7	14.3	6.5	15.3
JE00B2QKY057	<b>Shire PLC</b>	48 950	6.9	4.9	14.1	12.2	30.7	0.5	87.5	36.9	19.4	16.6	42.4	29.4	26.4
JE00BFNWV485	<b>Wolseley plc</b>	11 727	0.7	0.7	15.5	13.9	31.8	2.6	7.1	5.8	7.8	11.6	7.3	4.4	22.2
JE00B8KF9B49	<b>WPP Plc</b>	24 328	1.8	1.7	14.7	13.5	16.0	3.4	3.3	2.9	13.5	8.1	17.6	10.4	16.9

\*EBITDA Margin.

FY1 Current Unrealized Year, FY2 Next Year.

Sources: SGPB, Factset.

## MARKET DATA

Isin	Name	Ccy	Price	52 Weeks High	52 Weeks Low	Avg 6M Daily Turnover in (000)	Performance (%)					Risk	
							3m	6m	12m	Ytd	5y	Volatility (%)	Beta
GB0000595859	<b>ARM Holdings plc</b>	GBP	10.9	13.3	8.1	38 659.96	7.8	3.6	3.6	4.7	83.0	11.0	1.1
GB0002634946	<b>BAE Systems plc</b>	GBP	5.1	5.4	4.2	35 763.37	-0.3	-0.3	9.3	1.2	59.3	1.4	0.9
GB0031348658	<b>Barclays PLC</b>	GBP	1.4	2.9	1.2	90 126.13	-8.6	-38.0	-47.8	-37.0	-40.1	49.6	1.3
GB0009252882	<b>GlaxoSmithKline plc</b>	GBP	15.6	15.6	12.3	124 276.82	12.0	12.1	15.9	13.6	17.9	21.5	0.8
JE00B4T3BW64	<b>Glencore plc</b>	GBP	1.5	2.6	0.7	92 297.92	2.0	57.6	-44.2	62.1	-69.7	18.2	3.1
GB00B08SNH34	<b>National Grid plc</b>	GBP	10.6	10.6	8.1	69 085.07	7.5	11.0	27.4	13.2	74.5	19.8	0.4
GB0007099541	<b>Prudential plc</b>	GBP	12.6	16.4	10.5	70 793.26	-2.9	-19.5	-18.6	-18.0	77.3	24.0	1.6
GB00B03MM408	<b>Royal Dutch Shell Plc Class</b>	GBP	20.2	20.2	12.6	144 371.94	21.0	27.8	9.6	30.8	-7.2	26.5	1.6
GB0007958233	<b>Senior plc</b>	GBP	2.0	3.0	1.7	1 977.23	-9.7	-13.2	-31.0	-12.7	14.0	25.7	1.1
JE00B2QKY057	<b>Shire PLC</b>	GBP	44.7	58.7	34.2	106 179.46	15.3	-4.5	-13.0	-4.8	131.7	18.0	0.9
JE00BFNVV485	<b>Wolseley plc</b>	GBP	38.2	44.0	32.1	25 884.65	-2.3	1.5	-7.3	3.4	76.8	25.1	0.9
JE00B8KF9B49	<b>WPP Plc</b>	GBP	15.5	16.9	12.0	51 706.11	-3.5	-1.5	7.8	-0.6	101.7	4.2	1.0
JE00B8KF9B49	<b>WPP Plc</b>	GBP	15.5	16.9	12.0	51 706.11	-3.5	-1.5	7.8	-0.6	101.7	4.2	1.0

NA : Non Available, NS : Non Significant

FY1 Current Unrealized Year, FY2 Next Year.

Sources: SGPB, Factset.

# Financial Terms And Acronyms

**BV (Book Value):** is the total value of net assets of a company.

**BV/S (Book Value Per Share):** is the total value of the net assets of a company divided by the total number of outstanding shares.

**C/I (Cost Income Ratio):** is used for valuing banks. It shows a company's costs in relation to its income.

**CAGR (Compound Annual Growth Rate):** is a term used for the geometric progression ratio that provides a constant rate of return over a specific time period.

**CAPEX (Capital Expenditure):** is the fund used by the company to acquire or upgrade the physical assets such as property, industrial buildings or equipment. The most capital intensive industries include oil, telecom and utilities.

**CAR (Capital Adequacy Ratio):** is a measure of a bank's capital. It is expressed as a percentage of a bank's risk-weighted credit exposures.

**CET I (Common Equity Tier I Ratio) :** is a measure of the bank's common equity capital as a percentage of risk-weighted assets. It is generally compared to a defined benchmark stipulated by the regulatory authority to determine whether a bank is sufficiently capitalised.

**COMBINED RATIO:** It represents the total of acquisition and administrative expenses, and claims and insurance benefits incurred, divided by net premiums earned.

**DIVIDEND YIELD:** Dividend per share (total dividend paid out divided by the total number of shares) expressed as a percentage of current stock price.

**EBIT (Earnings Before Interest and Taxes):** profit before taking into account interest payments and income taxes.

**EBIT Margin:** Ratio that expresses EBIT as a percentage of total sales (EBIT/Sales\*100)

**EBITDA (Earnings Before Interest, Taxes, Depreciation and Amortisation):** profit before taking into account interest payments, income taxes and non-cash operating expenses (depreciation and amortisation).

**EPS (Earnings Per Share):** is the division of total net profit by the number of shares.

**EQUITY** is the difference between the value of the assets and the cost of the liabilities.

**EV (Enterprise Value)** is a measure of a company's value, often used as an alternative to straightforward market capitalisation. It is calculated as (market cap + debt + minority interest + preferred shares) – total cash – cash equivalents.

**FCF (Free Cash Flow):** represents the difference between operating cash flow and capital expenditures.

**FFO (Funds from Operations):** measures a REIT's operating performance. It is net income plus gains (minus losses) from property sale and purchase. FFO per share is often used in place of earnings per share when analysing REITs.

**FY0:** Realised year, **FY1:** Current unrealised year, **FY2:** next year

**GOODWILL:** is an intangible asset that arises as a result of the acquisition of one company by another company for a premium value.

**GROSS INCOME:** gross profit calculated as a company's total sales minus its cost of goods sold (COGS) that corresponds to labour and production costs.

**GROSS MARGIN:** expresses gross income as a percentage of total sales.

**LIKE FOR LIKE (LFL) GROWTH:** is a measure of growth in sales, adjusted for new or divested businesses.

**Loan-to-deposit (L/D) ratio:** Loans/Deposits. This helps in assessing a bank's liquidity, lending capacity and balance sheet quality.

**LTV (Loan-To-Value Ratio):** is a financial term used to express the ratio of a loan to the value of an asset purchased.

**NAV (Net Asset Value):** is similar to book value and is also called per investment unit. NAV is the marked-to-market value of the company's property investments less liabilities.

**ND (Net Debt):** is calculated as a company's total debt minus cash and other similar liquid assets.

**NET MARGIN:** is a financial ratio which measures the profitability of the net income of a company.

**NI (Net Income or Bottom Line):** represents a company's total earnings (or profit) which is calculated by adjusting revenues for the costs, depreciation, interest, taxes and other expenses.

**NIM:** Net Interest Margin

**NON-PERFORMING LOANS (NPL) RATIO:** NPLs/Loans. This indicates the percentage of the loans that are non-performing or are in stressed segments.

**OPERATING MARGIN:** See definition of EBIT Margin.

**ORGANIC GROWTH:** is the growth rate that a company can achieve by increasing its output and enhancing sales, excluding any profits or growth from takeovers or M&A activities.

**P/E or PER (Price Earnings Ratio):** reflects the trading price of a share in relation to the expected earnings.

**P/BV (Price To Book Value):** expresses the share price with regard to the accounting value of the company.

**PAYOUT RATIO:** is the proportion of earnings paid out as dividends to shareholders and typically expressed as a percentage.

**PROFIT WARNING:** is the announcement made by the company before its earnings release indicating the investors that its earnings would not meet the analysts' expectations.

**RWA (Risk Weighted Assets):** is a measure of the bank's assets, weighted according to their risk. It involves the risk weighting of both on and off-balance-sheet exposures.

**REVENUE GROWTH:** Illustrates the growth of sales over a given period.

**ROA (Return on assets):** a financial ratio that is calculated as net income divided by total assets and shows how profitable a company is relative to its total assets.

**ROC (Return on invested capital):** a profitability ratio which is calculated as net income minus dividends divided by total invested capital.

**ROE (Return On Equity):** The amount of net income returned as a percentage of shareholders' equity. Return on equity measures a corporation's profitability by disclosing how much profit a company generates with the money shareholders have invested.

**TBV (Tangible Book Value):** is the book value excluding intangible assets.

**TBV/S (Tangible Book Value Per Share):** allows to estimate the accounting value of a company by measuring its stockholders' equity per share. Formula: Re-valued Net Assets/Total Shares of Company.

**WACC (Weighted Average Cost of Capital):** also referred to as the firm's cost of capital, it is the rate that a company is expected to pay on an average to all its security holders to finance its assets.

**WORKING CAPITAL:** is the difference between a company's current assets and current liabilities and shows whether the company has sufficient short-term assets to cover its short-term debts.

# Appendix

## Investment Rating Definitions:

- Buy** Stock that is expected to outperform its MSCI sector index over a 12-month investment horizon.
- Neutral** Stock that is expected to perform in line with its MSCI sector index over a 12-month investment horizon.
- Sell** Stock that is expected to underperform its MSCI sector index over a 12-month investment horizon.
- Restricted** Covered stock that is not rated or assigned a target price as the Societe Generale group has a capital market transaction with that company.
- Add** Non-covered stock that is expected to outperform its MSCI sector index over a 12-month investment horizon. Consensus target price mentioned.

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Risk Levels	Losses
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<b>2 - Medium Risk</b>	There is a 95% probability that the product will not lose more than 15% of its value in one year.
<b>3 - High Risk</b>	There is a 95% probability that the product will not lose more than 30% of its value in one year.
<b>4 - Highest Risk</b>	There is a minimum of 5% probability that the product will lose more than 30% of its value in one year.

## Disclosures:

### Disclosures :

SG acted as co-manager in Barclays's bond issue (EUR, 1.25bn, 2.625%)

SG acted as joint bookrunner in Rio Tinto's bond issue (USD 10y benchmark).

SG is acting as financing joint mandated lead manager with Royal Dutch Shell PLC for the acquisition of BG Group PLC.

SG acted as a joint lead manager in Royal Dutch Shell's bond issue.

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