Credit Sector Report

No-deal Brexit

The impact on our corporate and bank coverage in a worst-case scenario

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Published on 9 August 2019

Key messages in a no-deal scenario

- Our economists now put the **probability of a no-deal Brexit** (on 31 October) at **40%,** up from 25-30%.
- In our coverage, the **most exposed sectors are Automobiles & Parts, Aerospace & Defense, Airlines and UK Banks.**
- All companies, **especially those active in cyclical sectors, could be affected** by potentially negative spillover effects to the European economy
- The impact of a no-deal Brexit on companies' financial profiles would mainly come from FX effects, higher costs (tariffs, relocation) and temporarily higher working-capital needs (delays and queues at the UK-EU border are likely).
- **Banks face other negative impacts**: **1.** one-time Brexit preparation costs, **2.** pressure on RWAs and higher cost of risk for banks with large UK exposure and **3.** potential decrease in collateral values (real estate)
- **Companies with a large exposure to the UK have prepared for a worst-case scenario** – we do not expect such companies to experience financial distress in the event of a no-deal Brexit.

UniCredit's base case

MPs prevent a no-deal Brexit, snap general election follows

- **After weeks of conflicting messages, UK Prime Minister Boris Johnson's Brexit strategy now seems clear.** He has (presumably deliberately) made demands from the EU that he knows will not be met. There likely will not be any negotiations between the UK and the EU. Both sides' central scenario is now that the UK will leave the EU on 31 October without a deal.
- **Mr. Johnson has said he has no intention of calling a snap general election to take place before Brexit.** Rather, as revealed by his top aide Dominic Cummings, it seems his strategy is to force through a no-deal Brexit on 31 October, even if the House of Commons votes is passing a vote of no confidence in the government.
- **However, we think UK MPs will be able to stop a no-deal Brexit on 31 October.** They have various options available to them, including amending the Fixed-term Parliaments Act to ensure an election takes place before Brexit, forcing the prime minister to request an extension of Article 50, and bringing down the government and installing a government of national unity with the sole purpose of requesting a Brexit delay and immediate elections. The Speaker of the House of Commons will play a crucial role, as he is likely to facilitate backbench MPs again taking control of the order paper. We put the probability of a no-deal Brexit at "only" 40%.

 Source: UniCredit Research

Implications of a no-deal scenario

- **WTO rules:** These would take immediate effect on the Brexit date (31 October 2019).
- **Tariffs on EU imports from UK:** UK exporters would face EU common external tariffs (averages 4.3% on UK exports to the EU27, 10% for cars, higher for food)
- **Tariffs on UK imports from EU:** The UK has indicated that it would temporarily lower tariffs on the vast majority of goods imported (non-EU and EU) to zero, but, overall, the UK's average tariffs would still rise (because average tariffs on EU goods would go from zero to a positive number).
- **Costs associated with non-tariff barriers:** The biggest costs faced by firms trading cross-border are those associated with non-tariff barriers both at the border (customs procedures and regulatory checks) and behind-the-border (regulations).
- **Stoppages/bottlenecks:** Neither side is fully prepared for a no-deal Brexit. In the short term, flows of goods will be significantly hampered because of delays and queues at the UK-EU border amid increased checks (the EU has said it will impose its customs code in full at the UK-EU border with few exceptions), while cross-border services trade would stop if the required regulatory licenses are not in place.
- **Economic cost:** This is almost impossible to estimate with any precision and will depend on how long the situation lasts and how the EU manages its side of the border, as well as the broader impact on sentiment and financial markets.

Source: UniCredit Research

Automotive manufacturers and suppliers (I)

Sub-sector	Single companies	Risk factor	Comment
Automotive manufacturers and suppliers		High	The UK automotive industry accounts for more than GBP 82bn in turnover and GBP 20.2bn in value added. With some 186,000 people employed directly in manufacturing and in excess of 856,000 employed across the wider automotive industry, the UK auto industry accounts for 12.0% of total UK exports of goods and GBP 3.65bn of investment each year in automotive R&D. More than 30 manufacturers build in excess of 70 models of vehicles in the UK. These are supported by 2,500 component providers and some of the world's most skilled engineers. Valued at GBP 17bn, road vehicles represented 10% of goods exports to the EU in 2018 and were the UK's single largest import from the EU (valued at GBP 47bn). They made up 17% of all UK goods imports from the EU and 43% of all UK imports of road vehicles. **1. New passenger cars:** 671,583 UK-assembled passenger cars went to the EU27 in 2018, accounting for 20% of total EU27 car imports and 51% of total UK car exports. 1.8mn cars were exported from the EU27 to the UK in 2018, representing 85% of total UK car imports and 32% of total EU27 car exports. **2. Parts and accessories (automotive components):** 80% of UK-imported automotive components came from the EU27 in 2018, representing 16% of the export value of EU27 car parts and accessories. 60% of UK-built parts and accessories were exported to the EU27 in 2018, accounting for 18% of the total value of EU27 component imports.
			For more information on the projected impact of different Brexit scenarios on the automobile sector and on the auto parts sector, see our Sector Report, 29 January 2018. Depending on the outcome of Brexit, supply-chain disruptions would be expected to have a major impact on companies, given delays at the border, the weaker GBP and increased tariff payments for both sides in trade flows. Given such uncertainty, foreign investment in the British auto industry has declined. Nevertheless, we believe that these companies have the flexibility, which they are likely to further increase, to adapt their production and parts flow to reduce such impacts over time.
	Aston Martin	High	100% of production is based in the UK. All models are produced in a single plant in the UK. The UK accounts for 30% of group sales.
	Antolin	Medium	13% of revenues are generated in the UK. Antolin operates 11 plants and one TCO, mainly in its Doors and Cockpits segments.
	Aptiv	Low	Aptiv has moved its global HQ from the UK to Ireland.
	BMW	Medium	9% of production (in units) is based in the UK (models produced are Rolls-Royce and MINI). The UK accounts for 10% of group sales. BMW estimates that the EBIT impact from a 10% WTO import tariff implication will amount to EUR 611mn for 172,048 BMW units shipped to the UK.
	Bosch	Low	5% of unit sales are generated in the UK. Its production base is in the UK. Bosch estimates that costs associated with a no-deal Brexit will be in the mid-two-digit-mn area p.a.
	CNH Industrial	Low	Iveco/Commercial vehicles (over 6 tons) represent 6% of unit sales in the UK. It does not have any production based there.
	Daimler	Medium	8% of unit sales are generated in the UK, where none of its production is based. Bloomberg Intelligence estimates the EBIT impact from a 10% WTO import tariff implication will amount to EUR 664mn on 179,869 imported units.
	Europcar	Medium	14% of group sales are generated in the UK. A devaluation of the currency might negatively impact a number of tourists and hence demand; car rental operations are likely to charge higher prices due car shortages in the UK.
	Ferrari	Medium	9% of unit sales are generated in the UK. Ferrari does not have any production based in the UK (all in Italy).
	Fiat Chrysler Automobiles	Low	1% of unit sales are generated in the UK. FCA does not have any production based in the UK.
	Ford	Medium	7% of sales are generated in the UK. Ford does not have any production based in the UK.
	Gestamp	Medium	Gestamp has seven facilities in the UK.
	Jaguar Land Rover	High	76% of production is located in the UK. The UK accounts for 19% of group sales. According to the *Guardian*, JLR CEO Ralf Speth has warned that a hard Brexit would cost the company GBP 1.2bn.
	LKQ Corp	Medium	16% of revenues are generated in the UK.
	Mahle	Low	Mahle has five production locations in the UK. Sales generated in the UK are minimal.
	McLaren	High	McLaren has 100% production exposure and 19% unit-sales exposure to the UK. It is likely to face negative impacts to its supply chain.

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Source: rating agencies, company data, UniCredit Research

Automotive manufacturers and suppliers (II)

Sub-sector	Single companies	Risk factor	Comment
	Pirelli	Low	About 7% of sales are generated in the UK.
	PSA Group	Medium	10% of group unit sales are generated in the UK, and 3% of production is based in the UK (models Opel Vivaro/Astra).
	Renault-Nissan-Mitsubishi	Low	5% of production (in units) is based in the UK (models produced are Infiniti Q30, Nissan SUVs). The UK accounts for 3% of group sales. Renault/Dacia/Renault-Samsung has no production base in the UK. Renault has unit sales exposure to the UK of 3%.
	Schaeffler	Low	Three plants are based in the UK. Schaeffler intends to move production of two plants out of the UK in the medium term.
	Sixt	Low	Sixt has a presence in the UK market. The UK's leasing market is the biggest in Europe.
	Toyota	Low	1% of production is based in the UK, and 1% of unit sales are generated in the UK.
	Volvo AB	Low	Trucks (vehicles weighing more than six tons) does not have any production based in the UK. 3% of unit sales are generated in the UK.
	VW	Low	5% of unit sales are generated in the UK, and none of its production is based there. Bloomberg Intelligence estimates that the EBIT impact from a 10% WTO-import-tariff implication to be EUR 1,027mn for 644,634 Audi/Porsche/VW/Skoda/Seat units sent to the UK.
	ZF	Low	6% of revenue is generated in the UK, and nine production plants are based in the UK.
Automobile finance companies	FCA Bank	Low	9% of portfolio is associated with the UK.
	FCE Bank	High	33% of net loans are associated with the UK, and FCE Bank will shift headquarters from the UK to Germany.
	GM Financial	No impact	GM Financial no longer has any exposure to the UK after the Opel disposal, mainly business in Americas
	PSA Banque France	No Impact	PSA Banque France has no exposure to the UK, only active in France
	RCI Banque	Low	11% of its net loans are associated with the UK.
	VW Financial Services	Low	70% of credit volume is associated with Germany, and the rest is split throughout Europe.
			Aside from general uncertainty surrounding Brexit and its macro impacts, we do not predict that Brexit will have a large direct impact on the following companies within our sector coverage, as these do not have any exposure, or have only very limited exposure, to the UK market: Adler Pelzer, Autoliv, Avis Budget, Continental, Exor, Faurecia, Hella, Hertz, IHO, Valeo.

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Industrials (I)

Sub-sector	Single companies	Risk factor	Comment
Aerospace & Defense		**High**	Trade disruptions, especially in view of the highly integrated and complex supply chain; related increasing working capital needs; tariffs on raw materials and consumable goods as well as on military aircraft; cut in UK defense budget (currently the EU's biggest defense spender); aviation safety agreement will have to be reached; longer-term changes in manufacturing footprint (and related costs).
	Airbus	High	Wing production unit in Wales, which manufactures all wings for Airbus commercial airplanes ahead of delivery to assembly lines in the EU; company is storing inventories (one month of buffer stock) to mitigate supply-side disruptions.
	Leonardo	High	15% of workforce based in the UK spread across six sites, company generates almost 20% of its revenues in the UK (around 50% of which are exported); fully integrated supply chain with other sites outside the UK.
Building Materials & Construction		**Low** for our covered universe	Slower demand for housing, infrastructure investment and non-residential (in particular office space); However, the companies in our coverage benefit from broad geographical diversification, which should largely offset weakness in the UK market in the event of a hard Brexit.
	CRH	Medium	Market leader in cement, aggregates and asphalt with significant reserves in the UK (generated 12% of sales in FY18 from continuing operations in the UK).
	HeidelbergCement	Low	Strong market position in the UK, but UK accounts for less than 10% of group sales and 4% of total group cement capacity.
	Saint-Gobain	Low	10% of sales are generated in the UK.
	Vinci	Low	5% of revenues are generated in the UK.
	Wienerberger	Low	10% of sales are generated in the UK; besides potential market weakness in the housing market, the company could suffer from potential disruptions in logistics and the supply chain as it relies on spare parts from the EU (the company has prepared by increasing stock).
			We do not see any impact for the following companies within our sector coverage as the companies do not have any or only very limited exposure to the UK market: Buzzi, Salini and LafargeHolcim.
Business Services/Logistics		**Low**	The companies in our coverage tend to be globally positioned with only limited exposure to the UK. However, weaker trade prospects with the EU could have a negative impact on shipping companies. Furthermore, the UK has said EU services firms will no longer have preferential access rights and protections in the UK (by the same token UK services firms will no longer have preferential access rights and protections in the EU).
			Companies in our coverage on which we expect minor or no effect include Adecco, ISS, Deutsche Post DHL, Maersk, CMA CGM, Hapag Lloyd, Manutencoop and Moby.
	Babcock, G4S	Medium	These UK-based outsourcers are unlikely to be directly impacted by Brexit since their contracts with the state should be more affected by political considerations than by macro/regulatory changes. However, a major recession could trigger budget cutbacks that could impact future revenues. Babcock generates a greater share of revenue in the UK (68%) than G4S (22%).
Capital Goods		**Low** for our covered universe	The companies we cover are well diversified in terms of regions and end-markets and would be less severely affected in the short term; impact mainly in the medium term from likely spillover effects to macro prospects for the EU.
			The companies we cover include ABB, Alstom, Schneider, Siemens, Nordex and Vestas.

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Industrials (II)

Sub-sector	Single companies	Risk factor	Comment
Chemicals		**Low** for our covered universe **High** for UK-based producers	Large, diversified chemical companies should mainly be affected by likely spillover effects on macro prospects for the EU. In our Chemicals coverage, and with the exception of Akzo Nobel, we do not see direct revenue exposure to the UK of greater than 10% for any issuer, and the overall share of UK-based Chemicals production is very limited. The UK chemical sector is heavily dependent on the EU, which accounts for 75% of its imports and 60% of its exports. UK companies would have to pay to re-register existing EU-REACH registrations with the corresponding UK authority. The UK has offered a 120-day grace period to allow chemicals to be marketed in the UK without UK registration. The EU has said that UK companies would need to transfer existing registrations to the ECHA in order to place chemicals on the EU market, and such applications would have to be made from an EU-based company. At end-April 2019, 718 REACH registrations remained registered only by registrants established in the UK. Only one out of nine companies that are UK-based registration holders confirmed that they would complete the preliminary UK registration within 120 days of a no-deal Brexit taking place.
			Our covered universe includes Air Liquide, Akzo Nobel, Arkema, BASF, Brenntag, CABB, Covestro, DSM, Evonik, Ineos, K+S, Lanxess, Linde, Solvay, Symrise and Syngenta.
	Ineos	Medium	The restricted group has no major production operations in the UK apart from smaller sites connected to its Chemicals Intermediates business (Oxide, Nitriles). However, we note that the wider INEOS group operates (amongst other ventures) the Grangemouth gas cracker in Scotland and adjacent production assets, that it has acquired upstream assets in the North Sea and that it produces other chemicals at UK-based assets. These activities are, or have been, supported by the INGERP restricted group with loans. Based on available RP capacity, there is a risk that the restricted bond group will make further loans to other INEOS assets in the UK (and these may not be repaid if a hard Brexit adversely impacts UK operations) or that the restricted group will make further substantial distributions to shareholders.
	Linde	Low	Following a merger with Praxair, the new Linde Plc is headquartered in the UK. Linde also maintains some operations in the UK but remains overall geographically well-diversified (also because Praxair was required to sell the majority of its European industrial-gas business to obtain the merger's approval). Thus, we expect any impact from Brexit on Linde's business to be rather indirect.
	Akzo Nobel	Medium	As per FY18, Akzo generated 10.5% of its revenues (excluding specialty chemicals) in the UK. Its reported invested capital in the country amounted to around EUR 1.0bn and the group employed 3,600 people in the UK (around 10% of its global workforce). Taking into account its overall slightly higher-than-average exposure to Europe (43% of FY18 sales) compared to peers, we see a hard Brexit as posing a slightly higher risk to Akzo compared to the rest of our sector coverage.

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Industrials (III)

Sub-sector	Single companies	Risk factor	Comment
Mining		**Low**	Sector mainly driven by China, pricing volatility and trade tensions; less affected by Brexit.
			We cover Anglo American, BHP Billiton and Glencore in the sector.
Steel		**Low** for our coverage	UK steel industry would be hurt by supply-chain issues (higher working capital needs) and weakening demand as a result of a struggling UK economy.
			For the companies in our steel coverage (ArcelorMittal, Schmolz+Bickenbach, ThyssenKrupp, voestalpine), exposure to the UK is rather limited, but a weakening of the European economy as a result of Brexit would add further pressure to currently already challenging market conditions in the European steel market.
Toll roads		**Low**	The companies we cover have no exposure to the UK.
			We cover Atlantia (which has a 15.5% stake in Eurotunnel-operator GetLink worth EUR 1.1bn based on current MCAP), ASF, APRR, SIAS and Cofiroute.
Paper & Packaging		**Low**	
	Ardagh	Low	Several production plants in the UK but overall contribution to the group estimated to be rather low
	Guala Closures	Low	Only two production plants in the UK, production mainly for local markets; some of the Guala's Italian and Polish production is shipped to the UK
	Mondi	Low	Operates two consumer packaging plants in the UK and exports containerboard and uncoated fine paper to the UK; UK revenues account for 3% of total revenues
	Smurfit Kappa	Low	Two paper mills and a number of other plants in the UK, 8% of workforce, but less than 10% of group revenues; relatively insulated business: paper that is made in the UK is generally sold in the UK as boxes
			The exposure of other companies in our coverage (Bormioli Pharma, Lecta and Sappi) to the UK is fairly limited.

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Source: rating agencies, company data, UniCredit Research

Consumer (I)

Sub-sector	Single companies	Risk factor	Comment
Health Care & Pharma		**Medium** (in general)	Pharmaceuticals accounted for around 5-6% of the UK's EU imports/exports (see website source). Pharma companies are largely immune to economic weakness but with their global exposure they are sensitive to FX effects. Depending on any post-Brexit agreements, trade barriers (such as the introduction of tariffs), the relocation of research teams, or slower market authorization processes, may result in a rising cost of medicines in the UK. In all likelihood, the EU would no longer recognise UK testing of medicines and medical devices, and the UK would lose access to EU databases for checking the safety of medicines. The UK has stockpiled medicines and will continue to recognise EU-tested medicines to facilitate imports. To minimize the risk of drug shortages in the case of a no-deal Brexit, the British government has already asked pharmaceutical companies to add a minimum of six weeks of backup supply of medicines in addition to their usual buffer. The pharmaceutical industry is highly regulated and subject to more EU-derived legislation than most other industries. Existing product standards in the European Economic Area (EEA) are authorized by the European Medicines Agency (EMA), previously based in London, and all drugs approved by the EMA are automatically granted access to the UK market. The EMA (European Medicines Agency) has already relocated to Amsterdam. A no-deal Brexit threatens the future of the National Health Service (NHS), puts a significant strain on staffing numbers. (our pharma coverage includes Amgen, Merck & Co, Merck KGaA, Sanofi, Pfizer, Roche, Bayer, Novartis, Teva, WBA).
	Glaxo SmithKline	Medium	GSK is the only pharma company in our coverage reporting in GBP. Due to its high US exposure (around 30%), the company benefits from the effect of a weaker GBP. The company already highlighted one-off costs of around EUR 90mn due to Brexit and additional costs of around EUR 60mn annually .
	AstraZeneca	Medium	Management indicated Brexit preparation costs of around EUR 45mn. The company reports in USD, and the FX impact would be limited.
Food & Beverage		**Low** (for our FOB coverage, except Diageo)	Food & Beverage accounted for around 1-2% of the UK's EU imports/exports in 9M18 (see website source). If WTO tariffs and trade barriers are put in place, the average price of EU imported foods – constituting about 70% of UK gross food imports – would likely increase by about 22%, according to the British Retail Consortium. The Brexit vote creates a lot of uncertainty for Scotch whisky exports, which is one of the key export products for the food and beverage industry in the UK. Any tariffs or duties could potentially lower demand for the industry. Brexit can impact the sugar trade. Tightknit trade interdependencies exist between Great Britain and continental Europe's sugar industries. Fitch highlighted that the pub sector in the UK is likely most exposed to Brexit risk given the relatively weak sector trends, exposure to US consumer spending and food, drink and labor cost risk. Fitch highlighted that in the short term, the patronage of pubs would likely decline as a result of falling consumer confidence and uncertainty regarding future tourism arrangements with the EU. The potential declining pub sector would have a negative impact on the brewery and alcohol industry (source: Fitch: Brexit Vulnerability: Whole Business Securitizations).
	BayWa	Low	BayWa highlighted during its 2Q19 call that its U.K. unit has suffered as Brexit uncertainty hurts wheat and barley shipments
	Diageo	Medium	Diageo is a UK spirit producer with whisky in its portfolio. In its 2018 annual report, Diageo's management highlighted that it continues to prepare for all scenarios around the UK's exit from the European Union in 2019 and is taking Brexit in its stride.
Personal & Household Goods		**Low** (for our whole PHG coverage)	The personal and household goods (PHG) industry depends on the future macro environment in the UK. With less money in pockets, people in the UK reduce their spending in PHG. Our PHG coverage includes LVMH, Kering, Henkel, SCA, Philip Morris, BAT and Imperial Tobacco.
	BAT / Imperial Brands	Low (to slightly positive)	The deregulation-focused hard Brexit could make it easier for tobacco companies to win court cases as judges would not be able to cite EU law decisions.

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Source: rating agencies, company data, UniCredit Research

Consumer (II)

Sub-sector	Single companies	Risk factor	Comment
Airlines		**Medium**	According to an EU Regulation of March 2019, in the event of a no-deal Brexit, UK air carriers will be granted traffic rights for flights between the UK and the EU until 30 March 2020. The prerequisite for this is that the UK must reciprocally grant EU air carriers the same rights and comply with provisions ensuring fair competition. In March 2019, the UK confirmed that it intends to grant EU air carriers such rights (according to the German Federal Ministry of Transport and Digital Infrastructure). However, the EU regulation aims to ensure that basic air services are maintained and not that the status quo is maintained. This means that no provision is made for more liberal traffic rights for UK air carriers, e.g. for routes from Germany to third countries or within the EU. Thus, we understand that flight operators will be allowed to fly point-to-point between the UK and EU cities. These measures provide a short window for the UK and the EU to negotiate a future deal regarding air travel and we note that new arrangements are unclear. No long-term aviation deal has been agreed. Airlines may have to prove EU ownership of 50 per cent plus one share to continue flying between the EU and the UK after March 2020. UK airlines have taken mitigating action, by opening EU subsidiaries and potentially suspending shareholders' voting rights to meet EU ownership and control rules (Easyjet and Ryanair).
	Air France- KLM, Lufthansa, TUI	Medium	Depending on arrangements made for the period from March 2020 onwards, we expect only a portion of short and medium-haul flights to be impacted, i.e. those that are connected to the UK. Furthermore, in long-haul, there might be a minor impact from UK customers that use these airlines. In addition negative impact could arise from negative macroeconomic impacts, which could negatively impact TUI's bookings from the UK.
Retail		**Medium**	As food retail is less affected by discretionary spending than fashion and consumer electronics retail, we expect a moderate impact on UK food retailers. This is also further supported by our assumption that fewer food retail products are sourced outside the country. Thus, the main impact would likely result from macroeconomic factors, mainly on the back of a weaker GBP, for importing goods as well as potential new import duties and tariffs. Core European food retailers will experience a negligible impact, in our view, due to the lack of presence in the country. We expect UK food retailers to continue to focus on value added and private label products in order to maintain market share. UK food exports will face the EU's common external tariff, veterinary testing and checks for labeling etc. at the border. The UK has offered a 21-month grace period for labeling for EU firms selling into the UK. Almost one-third of food consumed in the UK is imported from the EU and, given likely delays at the border, UK supermarkets have warned about empty shelves. UK food producers will face greater competition from non-EU producers as the UK plans to reduce tariffs.
	Tesco	Medium	As a UK company, Tesco would likely be the most affected in a hard Brexit scenario, as the majority of its operating profit (before exceptional items) is generated in the UK & ROI.
	Carrefour, Auchan, Metro, CBR Fashion, Douglas, Dufry, Schustermann & Borenstein	Low	The impact of a hard Brexit should be negligible for these companies.

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TMT & Cable

Sub-sector	Single companies	Risk factor	Comment
Cable		**Low**	Most of the companies in our coverage have no regional exposure to the UK and would therefore only be affected by consumer trends in their local markets and by global technological developments.
			Companies in our coverage that should be unaffected include Unitymedia, UPC, Telenet, VodafoneZiggo, Altice, Digi Communications and United Group.
	Virgin Media	Medium	A major recession in the UK would likely impact Virgin's pricing power and act as a moderate headwind to revenue growth, while fixed monthly cable fees are largely regarded as utility-like payments with low cyclicality.
Media		**Low**	Media companies have global revenue bases and would be more severely affected by broader macroeconomic trends. A major recession in the UK that triggered a downturn in the EU would be a headwind for the more cyclical advertising companies, in particular.
			Companies in our coverage that should see a limited impact include Bertelsmann, Eutelsat, SES, RELX, Wolters Kluwer, Publicis, Vivendi, Pearson and Netflix.
	WPP	Medium	WPP has the most significant exposure to the UK among the advertising companies in our coverage, with 13% of sales in the UK.
Technology		**Low**	The technology companies in our coverage are globally positioned and none have concentrated exposure to the UK.
			Companies in our coverage include ASML, Amadeus IT, Infineon, IBM, SAP, Cap Gemini, Nokia and Ericsson.
Telecoms		**Low**	Most of the telecom companies in our coverage have concentrated regional exposure and are not present in the UK. Profit and cash flow trends should be more driven by regional consumer dynamics and technological developments.
			Companies in our coverage that should be largely unaffected include AT&T, Cellnex, Orange, KPN, Telefonica Deutschland, Telekom Austria, Proximus, Telenor, Telia, TDC, America Movil, Verizon, Telstra, OTE, WindTre, Sunrise Communications, Salt and Telecom Italia.
	Vodafone	Low	Before the acquisition of Liberty Global's German and CEE businesses, Vodafone generated only around 16% of its revenue in the UK. In the future, this ratio will move towards 14%.
	BT	Medium	BT generates around 84% of its revenue in the UK. A major recession in the UK would make price increases more difficult for BT and would dampen the outlook for revenue and margin growth. While we regard fixed revenues as largely having low cyclicality, (pre-paid) mobile revenues have a higher degree of cyclicality. Capex requirements may increase, as at least a part of the sourcing cost will be directly or indirectly affected by the weaker GBP.
	Telefonica	Low	Telefonica has some exposure to the UK via its O2 UK mobile subsidiary (14% of group revenue), but we do not expect that a recession in the UK would have a major impact on the group's financial trends, although a potential partial disposal of its O2 UK subsidiary would likely be further postponed.
	DT	Low	DT owns a 12% stake in BT.

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Source: rating agencies, company data, UniCredit Research

Oil & Gas

Sub-sector	Single companies	Risk factor	Comment
Oil & Gas		**Low**	The sector is mainly commodity-price driven, thus in the absence of large sustainable price impacts on commodities directly resulting from Brexit, the impact should be fairly low. Although credit conditions remain strong for the sector, we expect geopolitical conditions in the Middle East, global trade tensions and their related impact on global economic growth to overshadow any Brexit-related weakness in the UK. Furthermore, we note that oil and gas companies in our coverage are typically globally positioned or have no direct exposure to the UK – these include: ENI, Equinor, Galp Energia, MOL, OMV, PKN Orlen, Repsol, Total.
	BP	Low	BP is headquartered in the UK and although management remains committed to staying in Britain regardless of Brexit, we note that BP reports in USD, employs 16,000 people in the UK (around 22% of its workforce) and sourced less than 5% of its global crude oil production (including a share of at-equity entities) from domestic operations in FY18. UK oil and gas fields also represent less than 5% of BP's estimated net proven reserves at FYE 2018. Management has been preparing for different scenarios for the UK's exit from the EU but "does not believe any of these scenarios will pose a significant risk to BP's business".
	Shell	Low (but higher than for BP)	Given it's dual-headquartered structure, Shell mainly expects Brexit risk to be around additional costs for administration and complexity. These could stem from delays in moving products and employees between the UK and the EU, additional tariffs and taxes, which could impact the demand for some of BP's products. Slightly more than 5% of Shell's FY18 oil and gas production came from UK sources and around 10% of Shell's proved reserves as of FYE 2018 were located in Europe (we expect mainly UK North Sea fields). While management highlights a potential "material adverse effect on Shell's earnings and cash flows" from Brexit, it does not see Brexit as posing an existential threat to the company.

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Source: rating agencies, company data, UniCredit Research

Utilities

Sub-sector	Single companies	Risk factor	Comment
Utilities		**Low**	UK installations are part of the ETS emission trading scheme. A hard Brexit would likely result in some UK installations dumping their hedges into the market, pushing EUA and energy prices downwards. The magnitude of this is unclear and the ETS market is actually testing new historical highs. On the other hand, a Brexit with UK still remains in the EUA scheme after Brexit, this could put upward pressure on CO2 prices, as installations that held on until November would have to buy certificates ahead of compliance date in April. At the end of July, the government confirmed that, in case of a no-deal Brexit, the trading mechanism would be replaced by a flat tax of 16 GBP/CO2t, which, for generators, would be added on top of a floor of 18 GBP/CO2t. This could theoretically create a diverging trend of electricity prices in the UK and the EU, should EUA trade at levels substantial different to those currently prevailing. As the British government recently introduced a cap on prices, we see an increasing risk of political interference if there is a sharp deterioration of the UK economy, putting further pressure on margins in an already highly competitive market. Overall we think that business risks are skewed towards the supply market. The cap introduced in January has been raised by 10% in April but will be reduced again in October. Regarding investments in infrastructure, it is worth noting that the possible loss of access to EIB funding might have an impact on the sector: according to the EIB website, in the last five years alone, EIB investments in utility-related infrastructure amounted to EUR 12.5bn (EUR 9bn of which was for power and gas grids and EUR 3.5bn for water and wastewater pipes). We finally note that in a snap election scenario, a victory of the labor party might have deeper consequences on the industry, as Labour leader Jeremy Corbin has pledged to take networks back under public control. Companies in our coverage that should see no/very limited impact include: 2i Rete Gas, A2A, Acea, CTE, CEZ, EDP, Enagas, EnBW, Enel, Engie, ERG, Eurogrid, Fortum Oyi, Gas Natural, Hera, Iren, Italgas, Orsted, Red Electrica, RTE, RWE, Snam, Statkraft, Suez, Tennet, Terna, Uniper, Vattenfall, Veolia Environnement, Verbund
	National Grid	Low	National Grid has only regulated activities in the UK and US. Around 45% of profit is generated in US.
	Centrica, SSE	Low/Medium	The main risks would come from the retail market, as described above. Centrica reported an overall increase in global customers, although troubles in the UK continue. Centrica aims to dispose of its E&P and Nuclear (20% interest) assets by 2020, and to focus on customer solutions. Diversification of offering will therefore become paramount in order to succeed in this market.
	E.ON / Innogy	Medium	EUR 351mn of EBITDA (7% of total) and EUR 248mn of EBIT (8% of total) were generated by Customer Solutions in the UK in FY17. The contribution declined to about EUR 237mn of EBITDA (5%) and EUR 142mn of EBIT (5%) in FY18. Additionally, as Innogy's planned divestment of the UK supply unit npower to SSE failed, E.ON will increase its market share from current 12% to 20% (Ofgem data as of 1Q19). Innogy retail operations in the UK had an EBIT of EUR -72mn in FY18, down from EUR -63mn in FY17. 1H19 results confirm this negative trend. FY19 results will show the full impact of the extended price cap. As mentioned above, we see high risk of political interference, especially if a hard Brexit endangers the real economy.
	EDF	Low/Medium	In FY18, EDF generated around 13% of revenues and 5% of EBITDA from UK activities (generation and supply). EBIT was negative at EUR -397mn. A Brexit/consumer sentiment-induced economic slowdown could translate into lower volumes and margins, with further risks arising from currency devaluation. EDF's generation fleet includes 15 nuclear reactors (20% owned by Centrica), 2 coal fired plants, 1 CCGT and 36 wind parks. The group is also involved in the construction of the 3.2GW EPR reactor Hinckley Point C in partnership with CGN. We do not exclude possible further delays due to hiccups along the supply chain. Note: the oil and gas E&P unit held by Edison and operating in the North Sea was divested to Energean in July 2019.
	Iberdrola	Low	20% of FY18 revenue was generated in the UK, mainly in Retail through Scottish Power (one of the big six) and grids (third largest power distributor), but 94% of the EBIT generated in UK comes from regulated activities and renewables. Retail operations could suffer from further margin compression if there is a deterioration in the economy, but the overall impact would be marginal.

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Source: rating agencies, company data, UniCredit Research

Banks (I)

Sub-sector	Single companies	Risk factor	Comment
Banks		**Medium**	One time costs related to the preparation for Brexit (the relocation of staff and legal costs) are manageable. UK-based firms would lose the clearance to provide services to EEA-based clients. These firms (e.g. UK, US, Japanese and Swiss banks) have set up subsidiaries (or relocated them) in the EU but have been unable to onboard all clients. EEA-headquartered banks have sought branch authorization in the UK (despite the UK's temporary permissions regime), have adapted their business models (the ECB has been pushing a proportionality principle) and most importantly have sought ways to maintain access to the UK's financial infrastructure (the European Commission has granted temporary permission to UK CCPs).
			Given the economic uncertainty surrounding Brexit, banks with large credit exposure in the UK might suffer from pressure on risk-weighted assets and from higher risk costs over the medium term. The most affected lending areas are corporate/SME lending, unsecured consumer credit and commercial real estate. Banks exposed to the retail sector are likely to suffer less than those that are not.
	Raiffeisen Bank Int.	Low	small UK exposure
	Erste Bank	Low	small UK exposure
	BAWAG P.S.K.	Low	small UK exposure
	Belfius Bank	Low	credit exposure of 5% (EUR 8.35bn).
	KBC	Low	small UK exposure
	UBS	Low	8.8% of exposure, 5.2% of RWAs, 8.6% of employees
	Credit Suisse	Low	5% of RWAs are in UK, headcount reduced significantly over recent years and mainly relevant for wealth management
	Aareal Bank	Medium	EUR 4.2bn of exposure, 15.9% of commercial real estate exposure (average LTV ratio of 60%, 49% hotel, 33% retail, 8% office, 6% student housing, 4% logistics)
	Deutsche Bank	Low	3.3% of total credit exposure, 14.5% of revenue
	Commerzbank	Low	EUR 27bn exposure according to 1H18 EBA data including some EUR 14bn corporate exposure, 5.8% of revenues, 4.7% of pre tax profit and 2.3% of employees
	Deutsche Pfandbriefbank	Medium	8% (EUR 4.8bn) of credit exposure, 14% of commercial real estate exposure (average LTV ratio of 55%, 34% retail, 33% office, 13% logistics)
	DZ Bank	Low	moderate UK exposure according to 1H18 EBA data (EUR 14bn)
	Nykredit	Low	<1% of credit exposure
	Danske Bank	Low	4% of credit exposure and 5% of profit before tax
	Bankinter	Low	small UK exposure; exposure mainly Spain and Portugal
	CaixaBank	Low	small UK exposure; exposure mainly Spain, Portugal and Italy
	Bankia	Low	small UK exposure; exposure mainly Spain
	BBVA	Low	small UK exposure
	Banco Santander	Medium	26.5% of total assets (EUR 349bn); of UK loan exposure, 79% are mortgages and 12% are corporate loans
	Banco de Sabadell	Medium	24% of total assets (EUR 46bn); of UK loan exposure, 93% is retail lending
	Nordea	Low	almost no exposure in UK, only 0.2% of employees

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Source: rating agencies, company data, Bloomberg, UniCredit Research

Banks (II)

Sub-sector	Single companies	Risk factor	Comment
Banks	BPCE	Low	small UK exposure
	Credit Mutuel Arkea	Low	small UK exposure
	Société Générale	Low	6.0% of credit exposure, 2.6% of employees
	Credit Agricole	Low	3.1% of exposure
	BNP Paribas	Low	4.7% of total credit commitments
	Credit Mutuel	Low	small UK exposure
	Lloyds Banking Group	High	almost entirely UK
	RBS	High	89.9% of total assets, 90.9% of revenue
	Barclays	High	52.3% of revenue
	HSBC	Medium	33% of revenue
	Bank of Ireland	High	28.6% of assets, 31.7% of revenue
	Allied Irish Banks	Medium	14% of customer loans, 10.8% of revenue
	Banco BPM	Low	low UK exposure
	UBI Banca	Low	low UK exposure
	Intesa Sanpaolo	Low	low UK exposure
	Banca MPS	Low	low UK exposure
	ING	Low	3.4% of exposure
	ABN Amro Bank	Low	1% of revenues, 1.8% of employees
	Rabobank	Low	3.1% of revenues (EUR 698mn)
	DNB	Low	small UK exposure
	Caixa Geral de Depositos	Low	almost no UK exposure
	BCP	Low	almost no UK exposure
	Banco BPI	Low	almost no UK exposure
	Swedbank	Low	almost no UK exposure
	Svenska Handelsbanken	Medium	13.5% of assets, 17.7% of revenue; of UK exposure, 69% is corporate and 31% retail lending
	SEB	Low	2.6% of assets, 2.2% of revenue

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Source: rating agencies, company data, Bloomberg, UniCredit Research

No-deal Brexit implications: cross-border movement of goods (I)

Area	Risk to UK	Risk to EU	Explanation
Customs	**HIGH** – due to huge share of trade affected and inevitable disruption	**MEDIUM** – lower share of trade affected, and UK has taken steps to maintain flow of goods from EU to UK	Currently, goods traded between the UK and the EU do not need customs declarations and do not require border checks (collection of taxes and duties and regulatory checks). If no deal were to be reached, there would be customs checks. Costs that would be affiliated with this are estimated to be equivalent to 4-15% of the cost of goods (HM Treasury). The UK has offered Transitional Simplified Procedures (TSPs) on a temporary basis (one year), allowing UK importers of EU goods to defer giving a full customs declaration and to pay any duty owed a month after import. Only 10% of UK importers have registered for TSPs. In contrast, the EU has said it would implement the EU customs code in full from Day 1, with VAT and duties due when the goods arrive in the EU, and trusted trader schemes would not be recognized. An estimated 145,000-250,000 UK firms still need to register for an EORI number to trade with the EU.
Tariffs	**MEDIUM** – UK plans to reduce tariffs on many goods, but this will increase competition for domestic producers	**MEDIUM**	Currently, there are zero tariffs on goods traded between the UK and EU. If no deal were to be reached, UK exporters would face the EU's common external tariff, which averages 4.3% on UK exports to the EU (10% for vehicles, 4.5% on car parts, much higher for food). The UK has said it will reduce tariffs to zero for 95% of product lines (for non-EU and EU goods imports) temporarily for one year, but the UK's average tariff would rise because tariffs on EU imports are currently zero. Finished-car tariffs would remain at 10%. Where tariffs are reduced, UK producers would be exposed to competition from non-EU exporters.
UK-EU border	**HIGH** – EU port traffic accounts for 55% of all traffic through UK ports	**MEDIUM**	Queues and delays at the border would be inevitable amid new customs checks, particularly from the EU side, as it has not offered temporary easements. In the UK, research has found that two extra minutes spent per vehicle at the border could more than triple the length of queues on the M20 to 29 miles. France is hiring 700 extra customs officials, the Netherlands over 900 and Germany 900.

Source: CBI (July 2019), "What comes next? The business analysis of no deal preparations", UniCredit Research

No-deal Brexit implications: cross-border movement of goods (II)

Area	Risk to UK	Risk to EU	Explanation
Road transport	**MEDIUM**	**LOW** – UK has taken mitigating measures	The UK has agreed to allow EU road hauliers limited cabotage in the UK until end-2019; the EU has given UK hauliers temporary permission for nine months, but ECMT permits would be required from end-2019. EU drivers licenses would remain valid in the UK for visitors, while UK drivers would need international driving permits (IDPs), which cost GBP 5.50 per driver. UK food products would be most affected as they account for 36% of imports transported by road.
The Irish border	**HIGH**	**HIGH**	The UK has said that, in a no-deal scenario, it would not introduce any new checks or controls at the Irish border for a temporary period (except in cases involving some chemicals and plants). Irish firms that export to Northern Ireland would need to register with HMRC and ensure VAT is paid. The EU has not said how it would manage the south side of the Irish border but has said it will protect the integrity of its single market.
Regulatory barriers behind the border for goods traded	**HIGH**	**MEDIUM**	Goods regulation involves sanitary and phytosanitary rules, labelling and restrictions on the use of substances. UK manufacturers exporting regulated goods to the EU would face double sets of rules and testing, e.g. car safety tests and new labelling (even though UK rules will be equivalent to EU rules on Day 1), as approvals in the UK would no longer be valid in the EU. The costs associated with these regulatory checks are estimated to average 7-8% of the cost of goods (HM Treasury). Some UK goods already placed on the EU market would not need to be tested again, but this does not apply to medical products. The UK would temporarily accept EU approvals and labelling for goods sold in the UK (two years for cars). Some firms have already shifted or duplicated product registrations.

Source: CBI (July 2019), "What comes next? The business analysis of no deal preparations", UniCredit Research

No-deal Brexit implications: people, data and UK legal framework

Area	Risk to UK	Risk to EU	Explanation
Citizens' rights	**LOW**	**LOW**	The UK has provided a grace period until end-2020 for current EU citizens resident in the UK to stay and apply for EU settled status or pre-settled status by then. Arrangements for UK citizens living in the EU are to be determined by individual member states.
Free movement/ migration	**MEDIUM**	**MEDIUM**	Until end-2020, EU nationals will not need to apply for any immigration status or visa if they do not intend to stay in the UK for more than three months. The EU has granted UK nationals visa-free travel in the event that no deal is reached, allowing visits for 90 days in a 180-day period.
Data	**HIGH**	**LOW** – the UK has taken mitigating action	The UK would be treated as a third country for personal data transfers, creating new legal requirements from Day 1. The UK would continue to recognize, and be aligned with, EU standards with regard to personal data and will permit the export of personal data to the EU and EEA states and institutions.
UK legal framework	**MEDIUM**	n/a	Currently, much of domestic UK law refers to EU law. Therefore, in order to leave the EU in an orderly fashion, UK law would need to be modified to reflect that EU law will no longer apply in the UK. Without this, significant legal uncertainty would ensue. The UK parliament has enacted a number of so-called Statutory Instruments (secondary law) to do this, but around 100 are outstanding (i.e. parliament has not opened debate on them or approved them).

Source: CBI (July 2019), "What comes next? The business analysis of no deal preparations", UniCredit Research

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This report was completed and first published on 9 August 2019 at 13:15.

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CR 19/11

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