

# Strat' Shot

Looking for European names sensitive to China? See our SG Dragon basket

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In China, the disappointing flash August PMI data (47.1, down from 47.8) published on Friday triggered renewed concerns about the economic outlook. This could cause further underperformance in our SG Dragon basket, which allows gearing equity funds to the current volatility of China's equity market.

■ **SG Dragon strongly underperforming** – On 10 July (see [link](#)), we built a basket of 22 European stocks highly sensitive to Chinese newsflow. Since the end of June, the SG Dragon basket has dropped by 12%, strongly underperforming the Stoxx 600 (-2%), and 21 out of the 22 stocks of the SG Dragon basket have underperformed the European index.

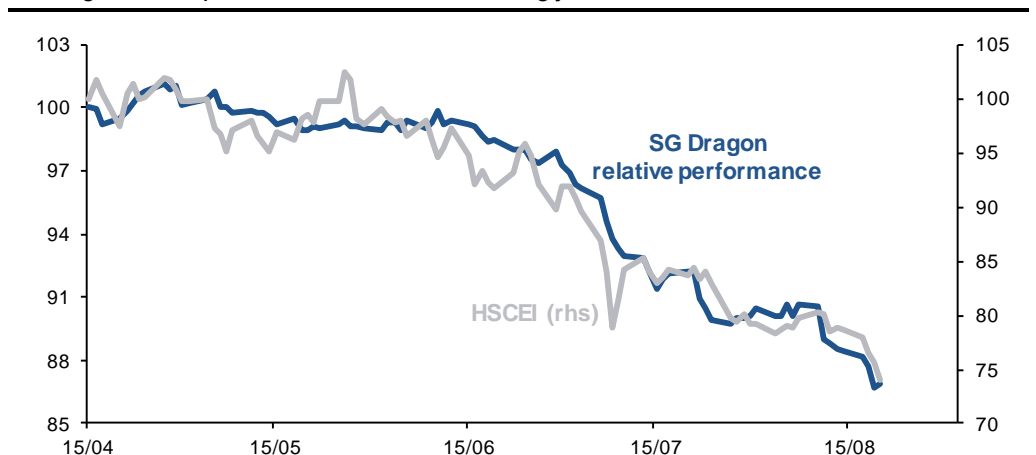
■ **Risk-off on China-linked assets in short term** – China's equity market and thus the SG Dragon basket (highly correlated with the HSCEI index) should continue to be under downward pressure on renewed fears of a hard landing in China. Longer term, we remain positive on Chinese equities backed by the country's attractive and expected policy loosening, which could come sooner rather than later given fast-rising concern about the economic outlook and would offer a nice entry point in our SG Dragon basket.

### SG Dragon basket: European companies sensitive to Chinese newsflow

Industrials	Commodity	Consumers	Financials	IT
ABB	Anglo American	Hermes Intl.	Aberdeen AM	Infineon Technology
Atlas Copco	BHP Billiton	LVMH	HSBC	Nokia
Intertek	Glencore	Richemont	Standard Chartered	
Rolls-Royce	Rio Tinto	BMW		
Schneider	Solvay	Valeo		
SGS				
SKF				

Source: SG Cross Asset Research/Equity Strategy

### SG Dragon relative performance to Stoxx 600 is strongly correlated to HSCEI



SG Dragon performance relative to Stoxx 600 in euro and total return. HSCEI performance in local currency and total return. Sources: Datastream, SG Cross Asset Research/Equity Strategy

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## SG Dragon basket - methodology and review

In our previous report ([link](#)), we selected stocks that have a strong geographical sales exposure to China or Asia (not specified)\*, based on SG analysts' data.

On top of this analytical approach, we checked the relative performance of each stock during the spike in Chinese equity volatility. The full screening is available [here](#).

*\*Companies do not systematically communicate their specific country exposure, but they do sometimes reveal their exposure to broader areas, via "Asia" or "Europe".*

### SG Dragon basket: 22 European stocks sensitive to China (ranked by sector)

While our basket is overweight in Automobiles, Luxury Goods and Metals & Mining - sectors that have recently suffered the most - it does include other less well-known companies sensitive to China.

Sectors Name	Company Name	Mkt Cap (€bn)	SG Reco	% sales China	%sales Asia	Relative Performance since 30/06/15
Aerospace & Defence	<b>Rolls-Royce</b>	20	Sell	na	44%	-14%
Automobiles & Comp.	<b>Valeo</b>	9	Buy	na	25%	-23%
Automobiles & Comp.	<b>BMW</b>	49	Buy	19%	na	-18%
Banks	<b>HSBC</b>	146	Buy	na	37%	-6%
Banks	<b>Standard Chartered</b>	29	Hold	na	68%	-20%
Capital Goods	<b>ABB</b>	40	Sell	12%	27%	-7%
Capital Goods	<b>Atlas Copco</b>	19	Hold	11%	28%	-9%
Capital Goods	<b>Schneider</b>	34	Buy	13%	28%	-8%
Capital Goods	<b>SKF</b>	7	Hold	11%	25%	-17%
Chemicals	<b>Solvay</b>	9	Buy	na	32%	-12%
Commercial Services	<b>Intertek</b>	6	Hold	na	35%	4%
Commercial Services	<b>SGS</b>	13	Hold	na	30%	-2%
General Financials	<b>Aberdeen AM</b>	6	Hold	na	36%	-21%
Luxury Goods	<b>Hermes Intl.</b>	33	Sell	na	46%	-6%
Luxury Goods	<b>LVMH</b>	75	Hold	na	35%	-6%
Luxury Goods	<b>Richemont</b>	36	Buy	na	47%	-7%
Metals & Mining	<b>Anglo American</b>	15	Hold	16%	22%	-19%
Metals & Mining	<b>BHP Billiton</b>	32	Buy	35%	na	-14%
Metals & Mining	<b>Glencore</b>	30	Hold	na	39%	-37%
Metals & Mining	<b>Rio Tinto</b>	46	Hold	38%	16%	-9%
Semiconductors	<b>Infineon Technology</b>	10	nc	na	23%	-19%
Telecom Equipment	<b>Nokia</b>	21	Buy	11%	30%	-8%

Capital good % sales in China based on 2012 data. nc: Not Covered, Relative performance to Stoxx 600 in Euro and total return. \* Asia (not specified): exposure to East Asian countries which cannot be identified and suggests that China could represent a share of it. It does not take into account sales exposure which is linked to specific countries (ex. Japan, China, etc.) Past performance is not indicative of future results. Basket presented assumes no transaction costs. Source: SG Cross Asset Research/Equity Strategy

## APPENDIX

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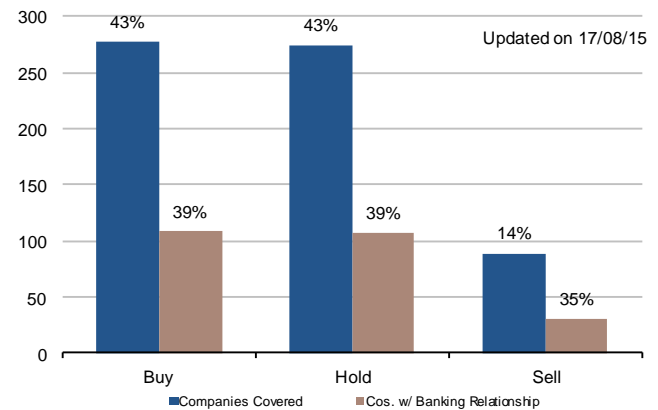
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Source: SG Cross Asset Research/Equity

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HSBC	SG acted as lead manager in HSBC's bond issue.
HSBC	SG acted as co-manager in HSBC BANK's bond issue
HSBC	SG acted as co-lead manager in HSBC's bond issue (Perp.2020 - 2024).
LVMH	SG acted as sole bookrunner in LVMH's bond issue (EUR 14/02/2019)

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Total	SG acted as joint bookrunners in Total's bond issue (EUR, 7.5yr-15yr).

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