UBS Group AG (UBS)

Updated July 31st, 2019 by Noah Horwood

Key Metrics

Current Price:	$10	**5 Year CAGR Estimate:**	19.3%	**Volatility Percentile:**	57.1%
Fair Value Price:	$17	**5 Year Growth Estimate:**	2.4%	**Momentum Percentile:**	17.4%
% Fair Value:	61%	**5 Year Valuation Multiple Estimate:**	10.2%	**Growth Percentile:**	10.5%
Dividend Yield:	6.7%	**5 Year Price Target**	$19	**Valuation Percentile:**	84.3%
Dividend Risk Score:	F	**Retirement Suitability Score:**	D	**Total Return Percentile:**	75.2%

Overview & Current Events

UBS Group's roots go back to the mid-19th century through many different financial institutions. In 1998, two of the three largest banks in Switzerland, Union Bank of Switzerland and Swiss Bank Corporation (SBC), joined together to form UBS Group. A few years later in 2000, the bank acquired PaineWebber, a U.S. brokerage and asset management firm, to establish a presence in the U.S. market. UBS Group's primary operations are providing financial services to private, corporate, and institutional clients. The bank also offers investment, retail, corporate and institutional banking, in addition to wealth management planning and asset management services. Other services provided by the bank are security services such as third party fund management and fund administration. This $43.1 billion market capitalization company is listed on the New York Stock Exchange under the ticker UBS.

On July 26th, 2019 UBS Group released Q2 results for the period ending June 30th, 2019 and on March 15th, 2019 the company released year ending December 31st, 2018 results. Earnings for the second quarter totaled $1,421 million ($0.38 per share) against $1,608 million ($0.42 per share) in Q2 of 2018. For the year earnings totaled $5,659 million ($1.48) against $5,242 million ($1.36) in 2018.

Growth on a Per-Share Basis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
Book/S	$11.3	$13.2	$15.2	$13.4	$14.3	$14.0	$14.8	$14.2	$14.1	$14.4	***$14.7***	***$16.5***
DPS	$0.01	$0.01	$0.10	$0.14	$0.22	$0.58	$0.77	$0.59	$0.67	$0.71	***$0.73***	***$0.82***
Shares	3,521	3,792	3,747	3,747	3,768	3,629	3,751	3,712	3,721	3,689	***3,710***	***3,794***

UBS Group had a terrific 2018 in terms of EPS. The company was easily able to outperform their prior year by a wide margin ($1.21 in 2018; $0.28 in 2017). Since the company's EPS history is inconsistent we were unable to use it as the company's primary growth metric. Instead we used book value per share (Book/S). In the last decade, UBS Group has grown their book value per share at a rate of roughly 3.1% annually. We expect growth to slow a bit to 2.4% annually, but be in the general range of historical growth.

To obtain this growth rate the company will need to successfully implement their new strategies which include, their greatest growth prospect, gaining market share in the US and Asia Pacific. Other areas which UBS Group aims to improve on are further globalizing their Global Family Office capabilities and net new business volume growth in Personal & Corporate Banking in Switzerland.

Valuation Analysis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	Now	2024
Avg. P/B	N/A	N/A	N/A	N/A	N/A	1.25	1.35	1.01	1.15	1.15	***0.70***	***1.14***
Avg. Yld.	0.0%	0.0%	0.9%	0.0%	0.0%	2.9%	2.5%	0.0%	3.3%	5.3%	***6.7%***	***4.6%***

Instead of using the average price-to-earnings ratio for UBS Group's valuation analysis we used price-to-book. We decided to use price-to-book ratio instead, because we did not have enough information from the price-to-earnings ratio since the company has had inconsistent earnings over the last decade. The current price-to-book ratio is well under the company's five year multiple average of 1.09 resulting in us valuing UBS Group as significantly undervalued at current prices. We expect valuation multiple expansion to improve total returns by 10.2 percentage points annually over the next 5 years.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
Payout	N/A	N/A	9%	52%	92%	52%	51%	70%	230%	57%	***60%***	***54%***

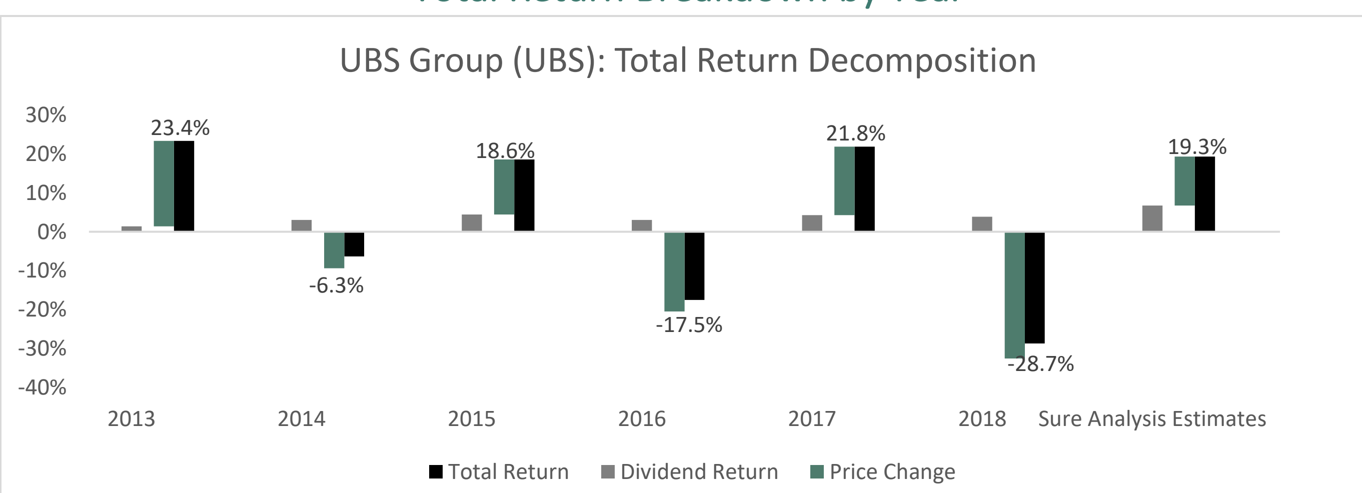
UBS Group has been putting more of an emphasis on their dividend in the last few years. UBS Group stated in their 2018 annual report that the company is going to aim to increase their ordinary dividend per share at a mid-to-high single-digit percentage each year going forward. In the last decade their dividend per share has gone from next to nothing to $0.71 in 2018. Their dividend yield is currently at 6.7% in the last year. The company's payout ratio has been very volatile since 2011 when the company started to increase their dividend. In 2017, their payout ratio was very high at 230%; that was because UBS Group had low earnings that year which was improved upon significantly in 2018.

UBS Group has great management behind them, which is why the company has been able to be such a big player in the global market for as long as they have been. In the aftermath of the financial crisis, UBS Group was able to refocus their business to maximize profits for their shareholders. The company was ahead of the curve in adapting to the new banking environment. Most notably UBS Group has diminished their investment banking department and focused more on wealth management. With that said, the company still has 30% of their capital consumed by the investment banking department. The company will not be able to completely remove the capital intensive investment banking department, because it is essential in securing their target audience of ultra-high-net-worth individuals. A risk to UBS Group going forward would be a downturn in the global economy, but the company stated they do not think there will be a recession in the global economy in their 2019 economic and market outlook.

Final Thoughts & Recommendation

Despite strong recent performance, share prices are very low at this point in time, the company is close to their 52-week low. Overall, we expect total returns of 19.3% annually, mainly driven by a 10.2% annual boost to total returns due to valuation multiple expansion, followed by a 6.7% yield, and a 2.4% annualized growth rate. As a result, we rate UBS Group as a buy at current prices for investors who don't expect a recession in the next several years.

Total Return Breakdown by Year



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Disclosure: This analyst has no position in the security discussed in this research report, and no plans to initiate one in the next 72 hours.

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Income Statement Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Revenue	23607	33885	29531	27711	30757	28126	30231	28600	29622	29981
SG&A Exp.	22020	22441	20653	20659	22293	19985	20959	20431	20579	20342
D&A Exp.	2291	1107	944	871	1013	910	1039	1090	1124	1293
Net Profit	-2643	7972	4397	-2476	3804	3649	6276	3348	969	4515
Net Margin	-11.2%	23.5%	14.9%	-8.9%	12.4%	13.0%	20.8%	11.7%	3.3%	15.1%
Free Cash Flow	51.9B	13741	-16.3B	72342	59876	5350	1283	-20.0B	-53.7B	27225
Income Tax	-428	-438	957	505	-124	-1193	-909	777	4305	1468

Balance Sheet Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Total Assets ($B)	1295.2	1406.6	1505.7	1380.0	1141.8	1074.5	953.8	918.9	939.3	958.5
Cash & Eq. ($B)	36.4	47.1	67.9	96.0	106.8	120.1	105.7	105.9	91.4	109.7
Goodwill & Int.	10636	10508	10302	7077	7091	6862	6645	6442	6563	6647
Total Liab. ($B)	1248.2	1354.4	1449.4	1326.2	1085.6	1019.5	895.9	865.3	886.7	905.4
Accounts Payable	327790		40510	42217	39094	41067	47826			38420
LT Debt ($B)	126.9	139.4	149.4	114.8	91.9	92.2	94.2	150.9	193.9	189.3
Total Equity	39626	46780	51568	50332	54089	51180	55960	52916	52495	52928
D/E Ratio	3.20	2.98	2.90	2.28	1.70	1.80	1.68	2.85	3.69	3.58

Profitability & Per Share Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Return on Assets	-0.2%	0.6%	0.3%	-0.2%	0.3%	0.3%	0.6%	0.4%	0.1%	0.5%
Return on Equity	-7.5%	18.5%	8.9%	-4.9%	7.3%	6.9%	11.7%	6.2%	1.8%	8.6%
ROIC	-1.0%	4.4%	2.2%	-1.3%	2.4%	2.5%	4.2%	1.9%	0.4%	1.8%
Shares Out.	3,521	3,792	3,747	3,747	3,768	3,629	3,751	3,712	3,721	3,689
Revenue/Share	6.45	8.83	7.70	7.38	8.00	7.39	8.00	7.48	7.72	7.80
FCF/Share	14.15	3.58	-4.26	19.27	15.58	1.41	0.34	-5.25	-14.00	7.09

Note: All figures in millions of U.S. Dollars unless per share or indicated otherwise.