UBS Group AG (UBS)

Updated September 2nd, 2019 by Aristofanis Papadatos

Key Metrics

Current Price:	$11	**5 Year CAGR Estimate:**	12.0%	**Volatility Percentile:**	53.7%
Fair Value Price:	$15	**5 Year Growth Estimate:**	1.0%	**Momentum Percentile:**	11.8%
% Fair Value:	75%	**5 Year Valuation Multiple Estimate:**	6.0%	**Growth Percentile:**	4.8%
Dividend Yield:	6.9%	**5 Year Price Target**	$15	**Valuation Percentile:**	93.6%
Dividend Risk Score:	F	**Retirement Suitability Score:**	D	**Total Return Percentile:**	82.4%

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), merged 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. The primary goal of UBS is to provide financial services to private, corporate, and institutional clients. The bank has a market cap of $39 billion and also offers investment, retail, corporate and institutional banking, in addition to wealth management planning and asset management services.

In late July, UBS reported (7/23/19) financial results for the second quarter of fiscal 2019. The bank achieved record earnings in the Americas and posted its highest second-quarter earnings in the last 9 years, mostly thanks to strong growth in personal and corporate banking. However, the strong performance of this segment was almost fully offset by a 12% decrease in the pre-tax profit of global wealth management, which is the most important segment of UBS, as it generates approximately half of the total earnings of the bank. As a result, earnings-per-share increased only 2%, to $0.37. Due to lackluster performance and poor momentum, we have lowered our expected book value per share at the end of the year from $14.90 to $14.70.

Growth on a Per-Share Basis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
Book/S	$11.30	$13.20	$15.20	$13.40	$14.30	$14.00	$14.80	$14.20	$14.10	$14.40	***$14.70***	***$15.45***
DPS	$0.01	$0.01	$0.10	$0.14	$0.22	$0.58	$0.77	$0.59	$0.67	$0.71	***$0.76***	***$0.80***
Shares[1]	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, as it managed to grow its earnings-per-share from $0.28 in 2017 to $1.21. However, UBS has a poor and inconsistent earnings growth record. We have thus used book value per share as its primary growth metric, as it shows how the company has been able to acquire new assets and revenue while it has also issued new shares. Unfortunately, UBS has been unable to grow its book value per share since 2011. We thus prefer to be conservative and assume only 1% annual growth of book value per share over the next five years. This conservative outlook is also warranted by the poor momentum of the major segment of UBS, i.e., global wealth management.

Valuation Analysis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	Now	2024
Avg. P/B	---	---	---	---	---	1.25	1.35	1.01	1.15	1.15	***0.75***	***1.00***
Avg. Yld.	0.0%	0.0%	0.9%	0.0%	0.0%	2.9%	2.5%	0.0%	3.3%	5.3%	***6.9%***	***5.2%***

UBS failed to post a meaningful profit during the period 2009-2013. In the last five years, the stock has traded at an average price-to-book value ratio of 1.18. Since early 2018, the stock of UBS has plunged 50%, partly due to the sell-off of all the financial stocks that has resulted from the negative interest rates in Europe and the dovish stance of the Fed this year. As a result, the stock is now trading at a depressed P/B ratio of 0.75. Given the markedly volatile performance

1. In millions.

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.

record of UBS, we assume a fair price-to-book value ratio of 1.00 for the stock. If the stock reaches our fair value estimate over the next five years, it will enjoy a 6.0% annualized boost in its returns during this period.

Safety, Quality, Competitive Advantage, & Recession Resiliency

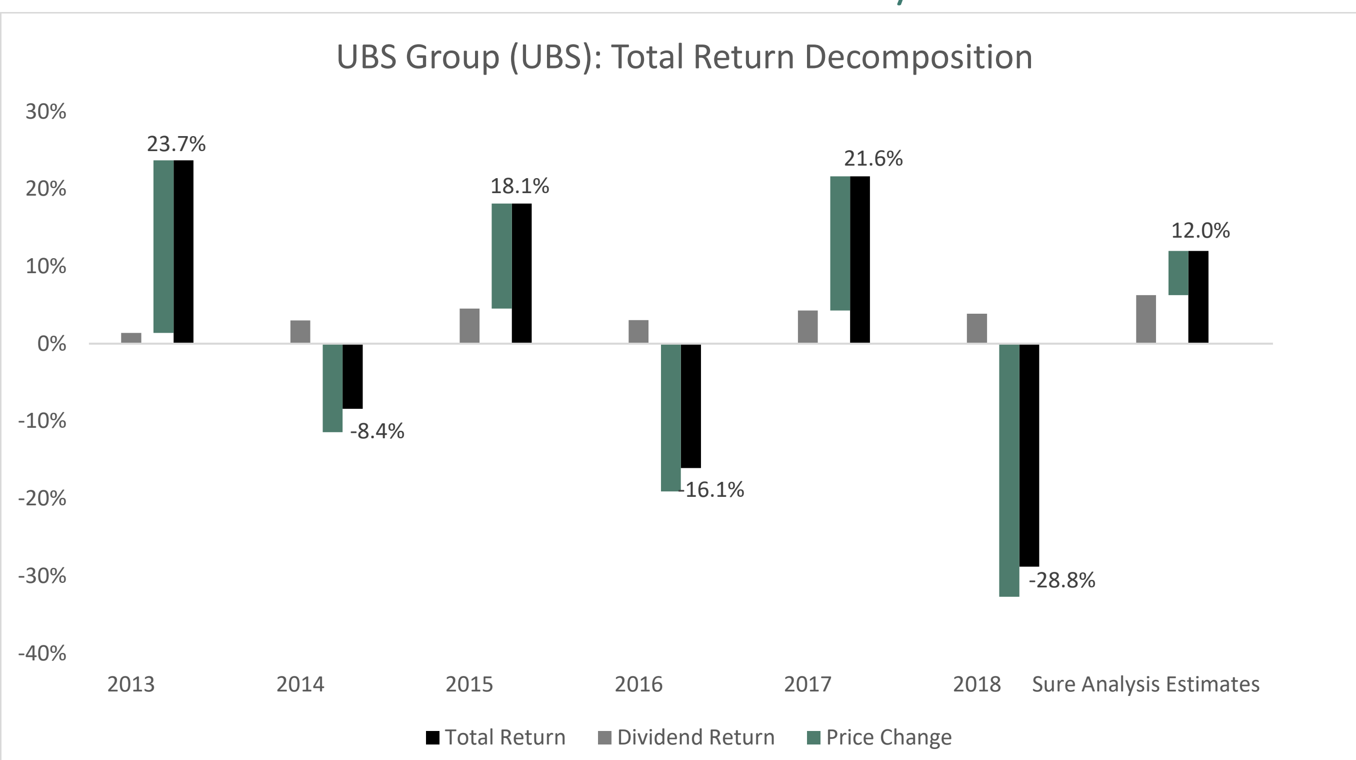
Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
Payout	---	---	9%	52%	92%	52%	51%	70%	230%	57%	*61%*	*61%*

Thanks to its suppressed stock price, UBS currently offers a remarkable 6.9% dividend yield. This yield will entice some investors, particularly given the healthy payout ratio of 61%. In the absence of a downturn, the dividend seems to be safe. However, it is important to remember that the bank posted sizeable losses during the Great Recession. Whenever the next recession shows up, UBS is likely to perform poorly once again and slash its dividend. This is an important risk factor to keep in mind, particularly given the absence of a recession in the U.S. and the global economy for a whole decade.

Final Thoughts & Recommendation

UBS has posted fairly decent results in the last two years. However, interest rates in Europe have remained negative for several years in a row while the Fed has become more dovish this year. Consequently, the stock of UBS has been affected by the sell-off of the whole financial sector and it is now trading 50% lower than it did in early 2018. Thanks to its suppressed valuation and its resultant high dividend yield, UBS could offer a 12.0% average annual return over the next five years. With that said, we caution investors that this security is likely to perform poorly during a severe recession as evidenced by its weak performance over the Great Recession, when earnings collapsed and the dividend was cut. Moreover, its volatile earnings record is a great concern to us. We rate the stock as a cautious buy.

Total Return Breakdown by Year



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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.