UBS Group AG (UBS)

Updated January 28th, 2020 by Aristofanis Papadatos

Key Metrics

Current Price:	$12.6	**5 Year CAGR Estimate:**	10.0%	**Market Cap:**	$46.1 B
Fair Value Price:	$15.7	**5 Year Growth Estimate:**	1.0%	**Ex-Dividend Date:**	5/5/2020
% Fair Value:	80%	**5 Year Valuation Multiple Estimate:**	4.5%	**Dividend Payment Date:**	5/7/2020
Dividend Yield:	5.8%	**5 Year Price Target**	$16.5	**Years Of Dividend Growth:**	3
Dividend Risk Score:	NA	**Retirement Suitability Score:**	NA	**Last Dividend Increase:**	5.8%

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 $46 billion and also offers investment, retail, corporate and institutional banking, in addition to wealth management planning and asset management services.

In late January, UBS reported (1/21/20) financial results for the fourth quarter of fiscal 2019. In the year, the pre-tax profit of global wealth management rose 4% thanks to growth in transaction-based income. This segment is the most important, as it generates 57% of the total earnings of the bank. However, the adjusted earnings-per-share of UBS dipped -3%, from $1.18 to $1.14, due to a -37% decline in the pre-tax profit of the Investment Bank segment, which resulted from the depressed interest rates prevailing right now, particularly in Europe, and intense competition.

The continuing monetary policies of central banks may help mitigate the deceleration of global economic growth but they are exerting significant pressure on the results of UBS. To be sure, in 2019, net interest income of UBS decreased -11%. That's why its management has repeatedly characterized the business conditions as challenging in recent quarters. Management intends to raise the dividend by $0.01 per year over the next two years.

Growth on a Per-Share Basis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
Book/S	$13.20	$15.20	$13.40	$14.30	$14.00	$14.80	$14.20	$14.10	$14.40	$15.08	***$15.70***	***$16.50***
DPS	$0.01	$0.10	$0.14	$0.22	$0.58	$0.77	$0.59	$0.67	$0.71	$0.69	***$0.73***	***$0.77***
Shares[1]	3,792	3,747	3,747	3,768	3,629	3,751	3,712	3,721	3,821	3,745	***3,700***	***3,650***

UBS Group had a terrific 2018, as it grew its earnings-per-share from $0.28 in 2017 to $1.18, but growth stalled in 2019. Moreover, 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	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Now	2025
Avg. P/B	---	---	---	---	1.25	1.35	1.01	1.15	1.15	0.80	***0.80***	***1.00***
Avg. Yld.	0.0%	0.9%	0.0%	0.0%	2.9%	2.5%	0.0%	3.3%	5.3%	5.7%	***5.8%***	***4.6%***

UBS failed to post a meaningful profit during the 2009-2013 period. In the last five years, the stock has traded at an average price-to-book value ratio of 1.11. Since early 2018, the stock of UBS has fallen -38%, partly due to the sell-off of

[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.

all the financial stocks that has resulted from the negative interest rates in Europe and the dovish stance of the Fed in recent months. As a result, the stock is now trading at a depressed P/B ratio of 0.80. Given the markedly volatile performance 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 4.5% annualized boost in its returns during this period.

Safety, Quality, Competitive Advantage, & Recession Resiliency

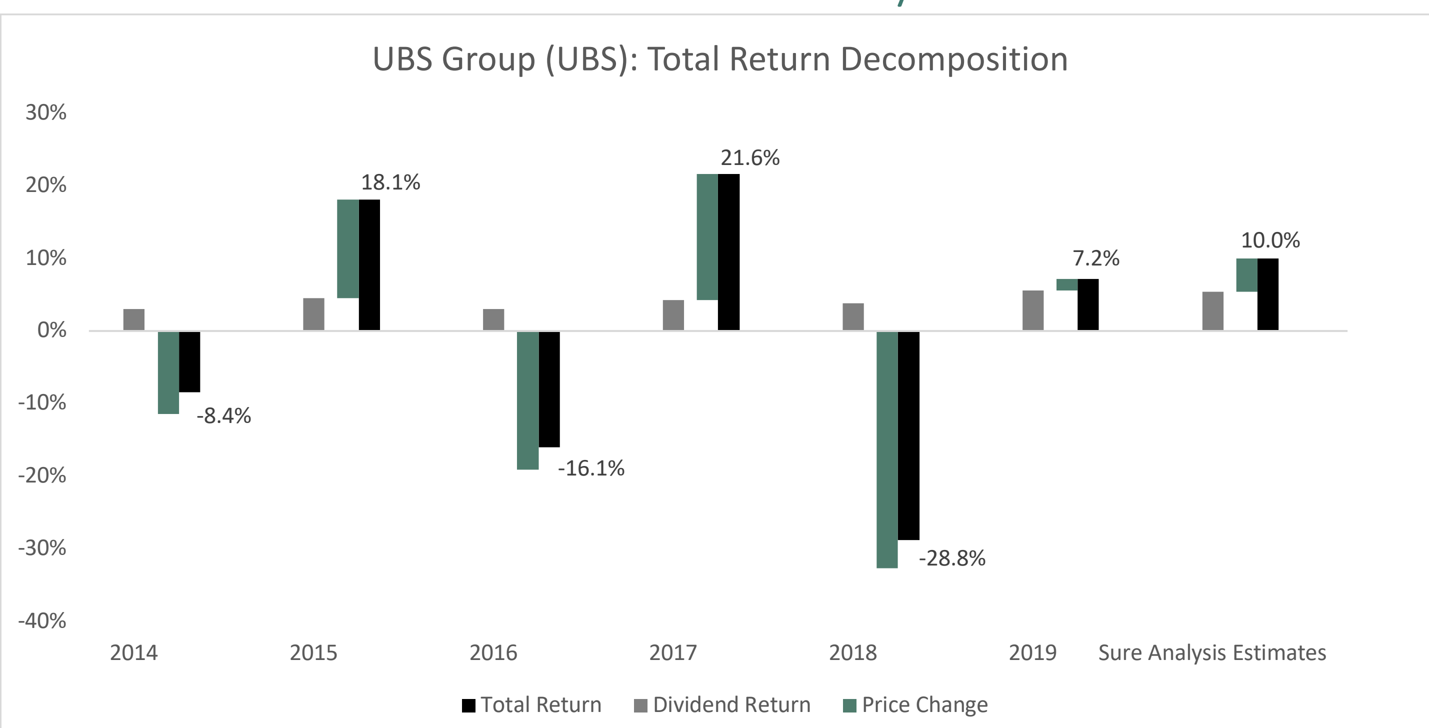
Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
Payout	---	9%	52%	92%	52%	51%	70%	230%	57%	61%	***56%***	***58%***

Thanks to its suppressed stock price, UBS currently offers a remarkable 5.8% dividend yield. This yield will entice some investors, particularly given the healthy payout ratio of 56%. 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 in recent months. Consequently, the stock of UBS is now trading -38% lower than it did in early 2018. Thanks to its suppressed valuation and its resultant high dividend yield, UBS could offer a 10.0% 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 hold.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Revenue	33885	29531	27711	30757	28126	30231	28600	29622	29981	28969
SG&A Exp.	22441	20653	20659	22293	19985	20959	20431	20579	20342	21372
D&A Exp.	1107	944	871	1013	910	1039	1090	1124	1293	
Net Profit	7972	4397	-2476	3804	3649	6276	3348	969	4515	4304
Net Margin	23.5%	14.9%	-8.9%	12.4%	13.0%	20.8%	11.7%	3.3%	15.1%	14.9%
Free Cash Flow	13741	-16.3B	72342	59876	5350	1283	-20.0B	-53.7B	27225	
Income Tax	-438	957	505	-124	-1193	-909	777	4305	1468	1267

Balance Sheet Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Total Assets ($B)	1406.6	1505.7	1380.0	1141.8	1074.5	953.8	918.9	939.3	958.5	972.2
Cash & Eq. ($B)	47.1	67.9	96.0	106.8	120.1	105.7	105.9	91.4	109.7	107.1
Goodwill & Int.	10508	10302	7077	7091	6862	6645	6442	6563	6647	6469
Total Liab. ($B)	1354.4	1449.4	1326.2	1085.6	1019.5	895.9	865.3	886.7	905.4	917.5
Accounts Payable		40,510	42,217	39,094	41,067	47,826	9,266	17,485	48,716	45,011
LT Debt ($B)	139.4	149.4	114.8	91.9	92.2	94.2	150.9	193.9	189.3	177.3
Total Equity	46780	51568	50332	54089	51180	55960	52916	52495	52928	54533
D/E Ratio	2.98	2.90	2.28	1.70	1.80	1.68	2.85	3.69	3.58	3.25

Profitability & Per Share Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Return on Assets	0.6%	0.3%	-0.2%	0.3%	0.3%	0.6%	0.4%	0.1%	0.5%	0.4%
Return on Equity	18.5%	8.9%	-4.9%	7.3%	6.9%	11.7%	6.2%	1.8%	8.6%	8.0%
ROIC	4.4%	2.2%	-1.3%	2.4%	2.5%	4.2%	1.9%	0.4%	1.8%	1.8%
Shares Out.	3,792	3,747	3,747	3,768	3,629	3,751	3,712	3,721	3,821	3,745
Revenue/Share	8.83	7.70	7.38	8.00	7.39	8.00	7.48	7.72	7.80	7.67
FCF/Share	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.