UBS Group AG (UBS)

Updated May 25th, 2020 by Aristofanis Papadatos

Key Metrics

Current Price:	$10	**5 Year CAGR Estimate:**	13.8%	**Market Cap:**	$35.1 B
Fair Value Price:	$15	**5 Year Growth Estimate:**	1.0%	**Ex-Dividend Date:**	5/5/2020[1]
% Fair Value:	69%	**5 Year Valuation Multiple Estimate:**	7.8%	**Dividend Payment Date:**	5/7/2020
Dividend Yield:	7.3%	**5 Year Price Target**	$15	**Years Of Dividend Growth:**	3
Dividend Risk Score:	D	**Retirement Suitability Score:**	C	**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 $35.1 billion and also offers investment, retail, corporate and institutional banking, in addition to wealth management planning and asset management services.

In late April, UBS reported (4/28/20) financial results for the first quarter of fiscal 2020. The bank achieved high transaction volumes in global wealth management and posted double-digit growth of pre-tax profit in this segment in all regions. As a result, this segment grew its pre-tax profit 41% over last year's quarter. This segment is the most important, as it generates 60% of the total earnings of the bank. Thanks to the strong performance of this division, UBS grew its pre-tax income by 30% over last year's quarter.

UBS is currently facing a strong headwind due to the global recession that has been caused by the coronavirus. Due to the pandemic, the bank will incur increased credit losses. It will also experience reduced fees due to the reduced value of its assets. Nevertheless, thanks to the strong performance of the bank in the first quarter, we have raised our estimate for book value per share at the end of this year from $15.70 to $16.20.

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	***$16.20***	***$17.03***
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[2]	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 ongoing global recession that has resulted from the coronavirus.

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	***0.62***	***0.90***
Avg. Yld.	0.0%	0.9%	0.0%	0.0%	2.9%	2.5%	0.0%	3.3%	5.3%	5.7%	***7.3%***	***5.0%***

[1] Annual dividend payment.

[2] 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.

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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. In the last three months, the stock of UBS has fallen -23% due to the spread of the coronavirus. As a result, the stock is now trading at a depressed P/B ratio of 0.62. Given the volatile performance record of UBS and the expected credit losses from the pandemic, we assume a fair price-to-book value ratio of 0.90 for the stock. If the stock reaches our fair value estimate over the next five years, it will enjoy a 7.8% annualized boost in its returns during this period.

Safety, Quality, Competitive Advantage, & Recession Resiliency

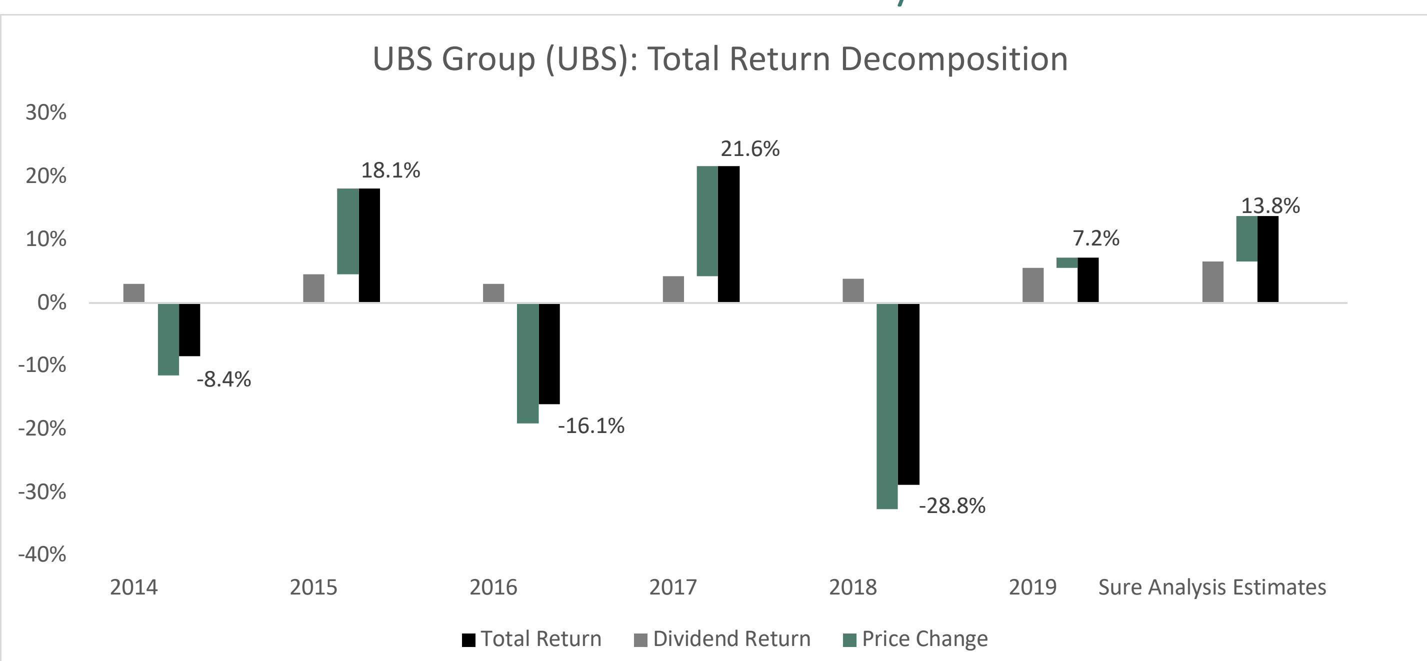
Year	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**	**2025**
Payout	---	9%	52%	92%	52%	51%	70%	230%	57%	61%	***66%***	***58%***

Thanks to its suppressed stock price, UBS currently offers a remarkable 7.3% dividend yield. This yield will entice some investors, particularly given the decent payout ratio of 66%. 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. In the ongoing recession, which has been caused by the pandemic, UBS may cut its dividend again if the downturn extends beyond this year. The bank has already paid half its dividend for this year. We believe that this bank is not suitable for income-oriented investors due to its volatile performance and its vulnerability to recessions.

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 pandemic has triggered a global recession. Consequently, the stock of UBS is now trading -53% lower than it did in early 2018. Thanks to its suppressed valuation and its resultant high dividend yield, UBS could offer a 13.8% 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 buy but only for those who are confident that the pandemic will not extend beyond this year.

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	19944
D&A Exp.	1107	944	871	1013	910	1039	1090	1124	1293	1830
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	18121
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	108.4
Goodwill & Int.	10508	10302	7077	7091	6862	6645	6442	6563	6647	6469
Total Liab. ($B)	1354.4	1449.4	1326.2	1085.6	1019.5	895.9	865.3	886.7	905.4	917.5
Accounts Payable		40,510	42,217	39,094	41,067	47,826	9,266	17,485	50260	46573
LT Debt ($B)	139.4	149.4	114.8	91.9	92.2	94.2	150.9	193.9	181.3	172.1
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	3.43	3.16

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	7.68
FCF/Share	3.58	-4.26	19.27	15.58	1.41	0.34	-5.25	-14.00	7.09	4.81

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