# UBS Group AG (UBS)

*Updated October 20th, 2020 by Aristofanis Papadatos*

## Key Metrics

| | | | | | |
|---|---|---|---|---|---|
| **Current Price:** | $12 | **5 Year CAGR Estimate:** | 10.5% | **Market Cap:** | $45.0 B |
| **Fair Value Price:** | $15 | **5 Year Growth Estimate:** | 1.0% | **Ex-Dividend Date:** | 11/25/2020[1] |
| **% Fair Value:** | 79% | **5 Year Valuation Multiple Estimate:** | 4.9% | **Dividend Payment Date:** | 11/27/2020 |
| **Dividend Yield:** | 6.1% | **5 Year Price Target** | $16 | **Years Of Dividend Growth:** | 1 |
| **Dividend Risk Score:** | C | **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 $45 billion and offers investment, retail, corporate and institutional banking, in addition to wealth management planning and asset management services.

In mid-October, UBS reported (10/20/20) financial results for the third quarter of fiscal 2020. The global wealth management segment, which generated 50% of the total earnings of the bank, posted a record third quarter in Asia and the Americas and grew its pre-tax profit by 18% thanks to high levels of client activity and great market volatility, which boosted transaction-based income by 16%. The asset management segment grew its pre-tax profit 42%, as management fees rose to a 10-year high. Thanks to its strong performance, UBS grew its adjusted pre-tax profit 41% over the prior year's quarter, smashing analysts' consensus ($2.1 billion vs. $1.5 billion) and posting its best third quarter in a decade.

UBS is facing a headwind due to the pandemic but the bank is showing signs of a strong recovery thanks to the ongoing recovery of the global economy. Management expects credit losses in the fourth quarter to be much lower than in the first half of the year. Thanks to the impressive performance in the third quarter, we have raised our expected book value per share at the end of this year by 4%, from $16.20 to $16.90.

## 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 | ***$16.90*** | ***$17.76*** |
| **DPS** | $0.01 | $0.10 | $0.14 | $0.22 | $0.58 | $0.77 | $0.59 | $0.67 | $0.71 | $0.69 | ***$0.73*** | ***$0.78*** |
| **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 grown its book value per share at a dismal 1% average annual rate 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 uncertainty caused by the pandemic.

## 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 | ***0.71*** | ***0.90*** |
| **Avg. Yld.** | 0.0% | 0.9% | 0.0% | 0.0% | 2.9% | 2.5% | 0.0% | 3.3% | 5.3% | 5.7% | ***6.1%*** | ***4.9%*** |

[1] Expected date.
[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. The stock is now trading at a P/B ratio of 0.71. 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 4.9% annualized boost in its returns during this period.

## Safety, Quality, Competitive Advantage, & Recession Resiliency

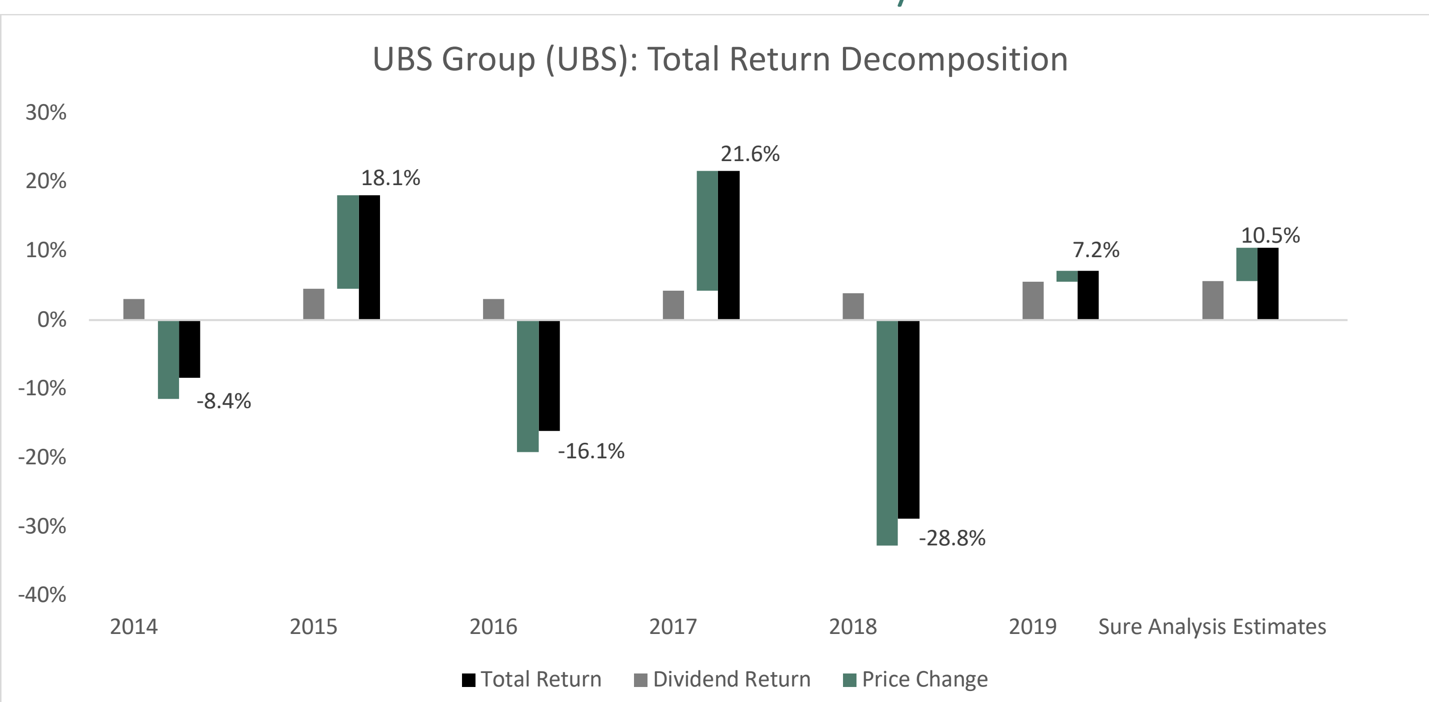
| Year | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2025 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Payout | --- | 9% | 52% | 92% | 52% | 51% | 70% | 230% | 57% | 61% | ***43%*** | ***52%*** |

Thanks to its suppressed stock price, UBS currently offers a 6.1% dividend yield. This yield will entice some investors, particularly given the healthy payout ratio of 43% this year. 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 has performed much better but its remarkably volatile performance record raises concerns. 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 decent results in the last two years. However, interest rates in Europe have remained negative for several years in a row while the pandemic causes high uncertainty in the short run. Consequently, the stock of UBS is now trading -43% lower than it did in early 2018. Thanks to its reasonable valuation and its attractive dividend yield, UBS could offer a 10.5% average annual return over the next five years. We thus rate the stock as a buy. 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.

## 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.*