UBS Group AG (UBS)

Updated February 17th, 2021 by Aristofanis Papadatos

Key Metrics

Current Price:	$16	**5 Year CAGR Estimate:**	4.0%	**Market Cap:**	$59.2 B
Fair Value Price:	$16	**5 Year Growth Estimate:**	2.0%	**Ex-Dividend Date:**	4/13/2021
% Fair Value:	100%	**5 Year Valuation Multiple Estimate:**	-0.3%	**Dividend Payment Date:**	4/15/2021
Dividend Yield:	2.3%	**5 Year Price Target**	$17	**Years Of Dividend Growth:**	1
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 $59.2 billion and offers investment, retail, corporate and institutional banking, in addition to wealth management planning and asset management services.

In late January, UBS reported (1/26/21) financial results for the fourth quarter of fiscal 2020. The global wealth management segment, which generated 46% of the total earnings of the bank, grew its pre-tax profit 22% over the prior year's quarter thanks to high levels of client activity in all regions. Moreover, the asset management segment grew its pre-tax profit 123% thanks to strong performance in the Hedge Fund Business. Overall, UBS more than doubled its earnings-per-share over the prior year's quarter, from $0.19 to $0.46, thus indicating that the worse is behind the bank.

UBS is facing a headwind due to the pandemic, but the bank is showing signs of a strong recovery. The net interest income of the bank will continue to be hurt by the depressed interest rates, which are likely to remain in place for the foreseeable future due to the global recession caused by the pandemic. On the other hand, the recovery of the stock market results in higher recurring fees in asset management. In addition, UBS stated that it will resume share repurchases, thus confirming its positive business outlook. Thanks to the positive business momentum of UBS, we expect all-time high book value per share of $17.50 at the end of this year.

Growth on a Per-Share Basis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
Book/S	$15.20	$13.40	$14.30	$14.00	$14.80	$14.20	$14.10	$14.40	$15.07	$16.76	***$17.50***	***$19.32***
DPS	$0.10	$0.14	$0.22	$0.58	$0.77	$0.59	$0.67	$0.71	$0.69	$0.73	***$0.37***	***$0.45***
Shares[1]	3,747	3,747	3,768	3,629	3,751	3,712	3,721	3,821	3,745	3,713	***3,650***	***3,600***

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, with a remarkably volatile performance record. We thus prefer to be conservative and assume only 2% annual growth of book value per share over the next five years off this year's expected record level.

Valuation Analysis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Now	2026
Avg. P/B	---	---	---	1.25	1.35	1.01	1.15	1.15	0.80	0.70	***0.91***	***0.90***
Avg. Yld.	0.9%	0.0%	0.0%	2.9%	2.5%	0.0%	3.3%	5.3%	5.7%	6.2%	***2.3%***	***2.6%***

[1] In millions.

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UBS failed to post a meaningful profit during the 2009-2013 period. In the last six years, the stock has traded at an average price-to-book value ratio of 1.04. The stock is now trading at a P/B ratio of 0.91. 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 trades at our fair value estimate in five years, it will incur a marginal -0.3% annualized drag in its returns during this period.

Safety, Quality, Competitive Advantage, & Recession Resiliency

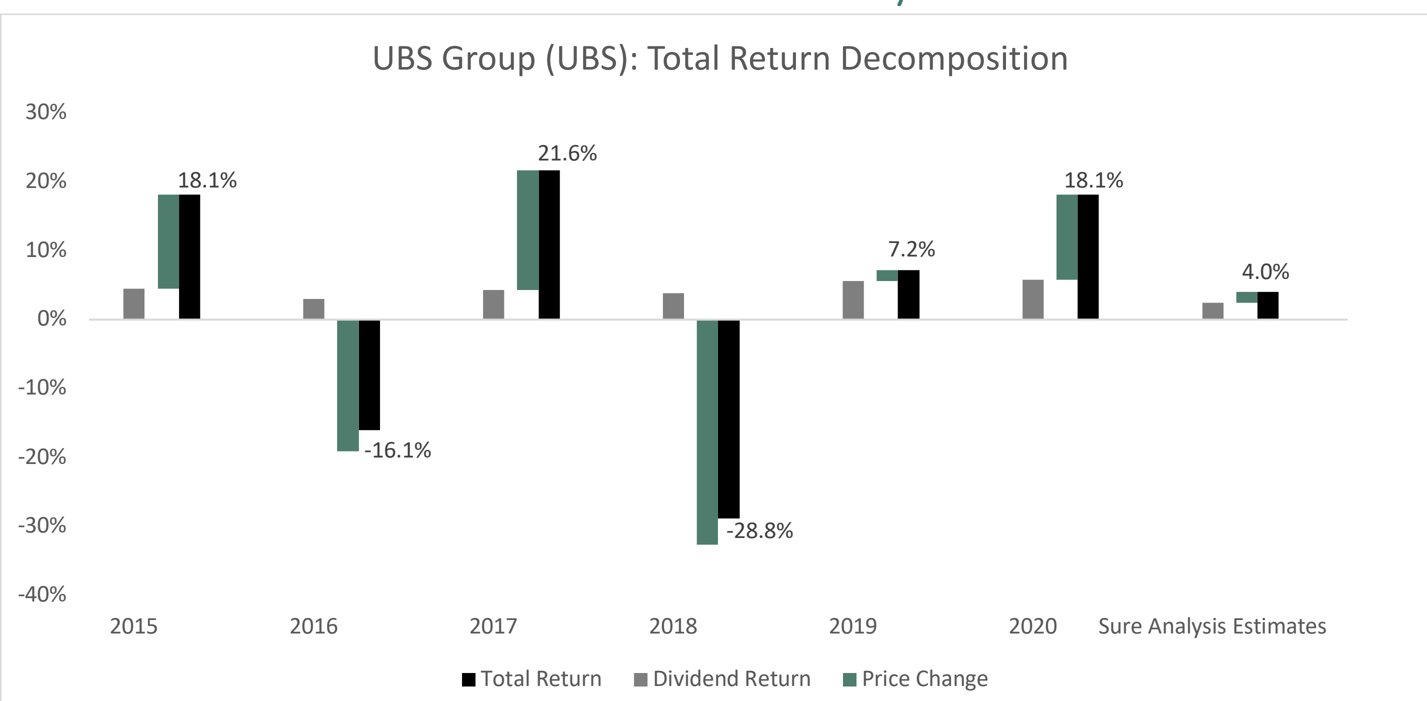
Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
Payout	9%	52%	92%	52%	51%	70%	230%	57%	61%	43%	***27%***	***30%***

UBS currently offers a 2.3% dividend yield. This yield may entice some investors, particularly given the healthy payout ratio of 27% 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 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. In addition, the pandemic could subside in the second half of this year thanks to the massive vaccination program underway. As a result, the stock of UBS has rallied 33% since our last research report, in October. Thanks to the strong business momentum of UBS, its stock could remain in its uptrend in the short run. However, due to its steep rally, the stock has become less attractive and we expect it to offer just a 4.0% average annual return over the next five years. We thus lower our rating from "buy" to "hold". 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	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Revenue	29531	27711	30757	28126	30231	28600	29622	29981	28969	33084
SG&A Exp.	20653	20659	22293	19985	20959	20431	20579	20342	19944	22037
D&A Exp.	944	871	1013	910	1039	1090	1124	1293	1830	---
Net Profit	4397	-2476	3804	3649	6276	3348	969	4515	4304	6629
Net Margin	14.9%	-8.9%	12.4%	13.0%	20.8%	11.7%	3.3%	15.1%	14.9%	20.0%
Free Cash Flow	-16.3B	72342	59876	5350	1283	-20.0B	-53.7B	27225	18121	---
Income Tax	957	505	-124	-1193	-909	777	4305	1468	1267	1583

Balance Sheet Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Total Assets ($B)	1505.7	1380.0	1141.8	1074.5	953.8	918.9	939.3	958.5	972.2	1,126
Cash & Eq. ($B)	67.9	96.0	106.8	120.1	105.7	105.9	91.4	109.7	108.4	158.2
Goodwill & Int.	10302	7077	7091	6862	6645	6442	6563	6647	6469	6480
Total Liab. ($B)	1449.4	1326.2	1085.6	1019.5	895.9	865.3	886.7	905.4	917.5	1,066
Accounts Payable	40,510	42,217	39,094	41,067	47,826	---	---	39,964	38,795	38,742
LT Debt ($B)	149.4	114.8	91.9	92.2	94.2	150.9	193.9	181.3	172.1	200.5
Total Equity	51568	50332	54089	51180	55960	52916	52495	52928	54533	59517
D/E Ratio	2.90	2.28	1.70	1.80	1.68	2.85	3.69	3.43	3.16	3.37

Profitability & Per Share Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Return on Assets	0.3%	-0.2%	0.3%	0.3%	0.6%	0.4%	0.1%	0.5%	0.4%	0.6%
Return on Equity	8.9%	-4.9%	7.3%	6.9%	11.7%	6.2%	1.8%	8.6%	8.0%	11.6%
ROIC	2.2%	-1.3%	2.4%	2.5%	4.2%	1.9%	0.4%	1.8%	1.8%	2.7%
Shares Out.	3,747	3,747	3,768	3,629	3,751	3,712	3,721	3,821	3,745	3,713
Revenue/Share	7.70	7.38	8.00	7.39	8.00	7.48	7.72	7.80	7.68	8.92
FCF/Share	-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.