UBS Group AG (UBS)

Updated February 8th, 2022 by Aristofanis Papadatos

Key Metrics

Current Price:	$21	**5 Year CAGR Estimate:**	2.4%	**Market Cap:**	$68.8 B
Fair Value Price:	$18	**5 Year Growth Estimate:**	3.0%	**Ex-Dividend Date:**	4/12/2022[1]
% Fair Value:	117%	**5 Year Valuation Multiple Estimate:**	-3.0%	**Dividend Payment Date:**	4/14/2022
Dividend Yield:	2.4%	**5 Year Price Target**	$21	**Years Of Dividend Growth:**	1
Dividend Risk Score:	C	**Retirement Suitability Score:**	D	**Last Dividend Increase:**	35.1%

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 $68.8 billion and offers investment, retail, corporate and institutional banking, in addition to wealth management planning and asset management services.

In early February, UBS reported (2/1/22) financial results for the fourth quarter of fiscal 2021. The global wealth management segment, which generated 33% of the total earnings of the bank, saw its pre-tax profit decline -35% over the prior year's quarter but only due to a provision for litigation issues. Excluding this non-recurring issue, the segment would have delivered double-digit earnings growth in all regions thanks to high levels of client activity and the total pre-tax profit of the bank would have grown 24%. Overall, UBS continued to enjoy strong activity in all its segments, without any signs of fatigue on the horizon.

UBS faced a headwind due to the pandemic in 2020, but the bank has emerged stronger, primarily thanks to the unprecedented fiscal stimulus packages offered by most governments, which have greatly increased the cash pile of consumers and companies. Moreover, the rally of the stock market in the last two years has resulted in higher recurring fees in asset management.

Growth on a Per-Share Basis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Book/S	$13.40	$14.30	$14.00	$14.80	$14.20	$14.10	$14.40	$15.07	$16.76	$17.07	***$18.00***	***$20.87***
DPS	$0.14	$0.22	$0.58	$0.77	$0.59	$0.67	$0.71	$0.69	$0.73	$0.37	***$0.50***	***$0.61***
Shares[2]	3,747	3,768	3,629	3,751	3,712	3,721	3,821	3,745	3,713	3,574	***3,500***	***3,400***

UBS Group currently enjoys strong business momentum thanks to the fiscal stimulus packages offered by most governments in response to the pandemic. However, the bank 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 2% average annual rate over the last decade, with a remarkably volatile performance record. Given the improved momentum, we assume 3% annual growth of book value per share over the next five years.

Valuation Analysis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Now	2027
Avg. P/B	---	---	1.25	1.35	1.01	1.15	1.15	0.80	0.70	0.95	***1.17***	***1.00***
Avg. Yld.	0.0%	0.0%	2.9%	2.5%	0.0%	3.3%	5.3%	5.7%	6.2%	2.3%	***2.4%***	***2.9%***

[1] Annual Dividend.

[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 eight years, the stock has traded at an average price-to-book value ratio of 1.05. The stock is now trading at a price-to-book value ratio of 1.17. Given the volatile performance record of UBS, we assume a fair price-to-book value ratio of 1.00 for the stock. If the stock trades at our fair value estimate in five years, it will incur a -3.0% annualized drag in its returns during this period.

Safety, Quality, Competitive Advantage, & Recession Resiliency

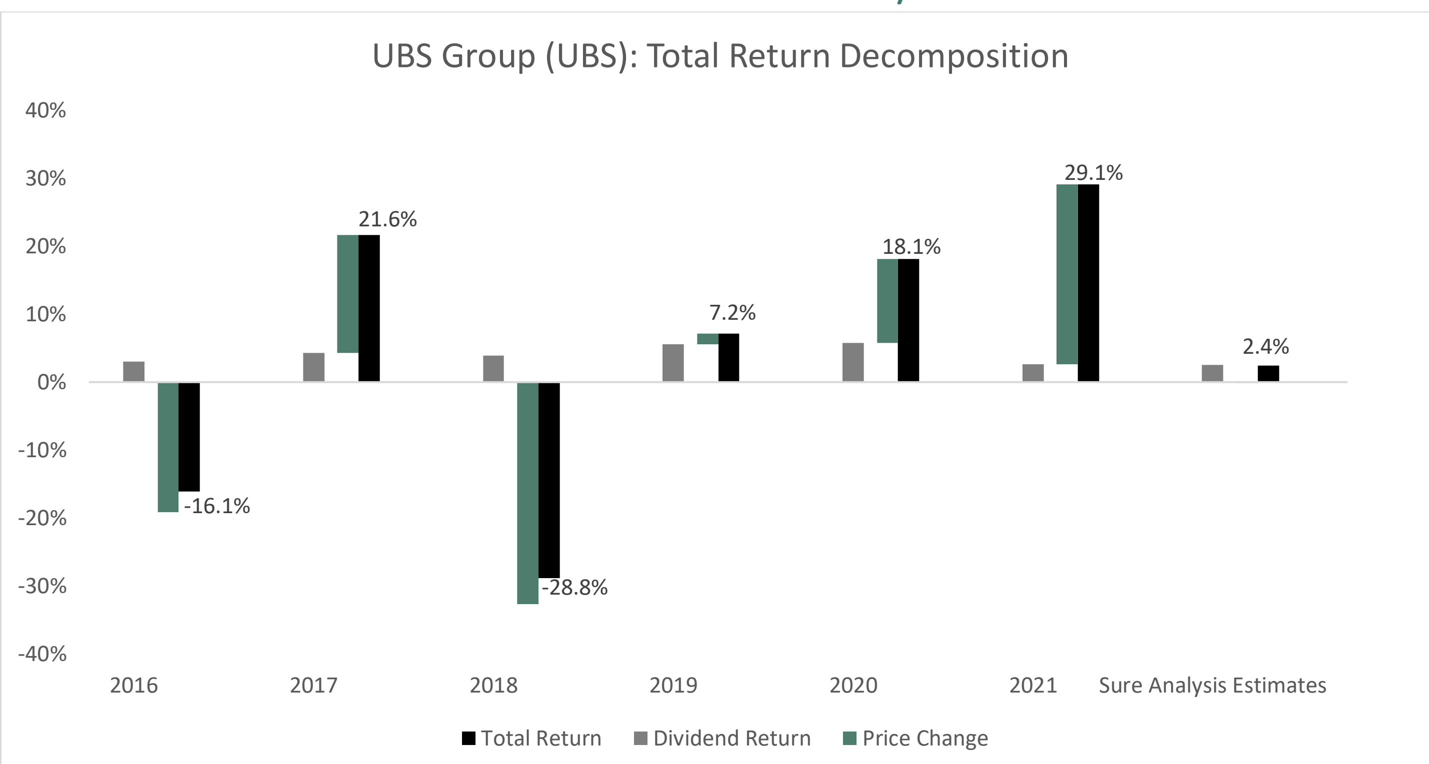
Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Payout	52%	92%	52%	51%	70%	230%	57%	61%	43%	18%	***25%***	***30%***

UBS currently offers a 2.4% dividend yield. This yield may entice some investors, particularly given the healthy payout ratio of 25% this year. However, it is important to remember that the bank posted sizeable losses during the Great Recession. In the recession caused by the pandemic in 2020, UBS 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 emerged stronger from the pandemic thanks to the excessive liquidity that has flooded the financial sector in the aftermath of the pandemic. As a result, the stock of UBS has more than doubled off its bottom in 2020. Due to its steep rally, UBS has become less attractive and we expect it to offer modest returns over the next five years. We thus rate it as a 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	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Revenue	27711	30757	28126	30231	28600	29622	29981	28969	33084	35394
SG&A Exp.	20659	22293	19985	20959	20431	20579	20342	19944	22109	23940
D&A Exp.	871	1013	910	1039	1090	1124	1293	1830	2126	---
Net Profit	-2476	3804	3649	6276	3348	969	4515	4304	6629	7457
Net Margin	-8.9%	12.4%	13.0%	20.8%	11.7%	3.3%	15.1%	14.9%	20.0%	21.1%
Free Cash Flow	72342	59876	5350	1283	-20.0B	-53.7B	27225	18121	35104	---
Income Tax	505	-124	-1193	-909	777	4305	1468	1267	1583	1998

Balance Sheet Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Total Assets ($B)	1380.0	1141.8	1074.5	953.8	918.9	939.3	958.5	972.2	1,126	1,117
Cash & Eq. ($B)	96.0	106.8	120.1	105.7	105.9	91.4	109.7	108.4	158.2	192.8
Goodwill & Int.	7077	7091	6862	6645	6442	6563	6647	6469	6480	6378
Total Liab. ($B)	1326.2	1085.6	1019.5	895.9	865.3	886.7	905.4	917.5	1,066	1,056
Accounts Payable	42,217	39,094	41,067	47,826	---	---	39,964	38,795	38,742	44,045
LT Debt ($B)	114.8	91.9	92.2	94.2	150.9	193.9	181.3	172.1	200.5	213.0
Total Equity	50332	54089	51180	55960	52916	52495	52928	54533	59517	60662
LTD/E Ratio	2.28	1.70	1.80	1.68	2.85	3.69	3.43	3.16	3.37	3.51

Profitability & Per Share Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Return on Assets	-0.2%	0.3%	0.3%	0.6%	0.4%	0.1%	0.5%	0.4%	0.6%	0.7%
Return on Equity	-4.9%	7.3%	6.9%	11.7%	6.2%	1.8%	8.6%	8.0%	11.6%	12.4%
ROIC	-1.3%	2.4%	2.5%	4.2%	1.9%	0.4%	1.8%	1.8%	2.7%	2.8%
Shares Out.	3,747	3,768	3,629	3,751	3,712	3,721	3,821	3,745	3,713	3,574
Revenue/Share	7.38	8.00	7.39	8.00	7.48	7.72	7.80	7.68	8.92	9.78
FCF/Share	19.27	15.58	1.41	0.34	-5.25	-14.00	7.09	4.81	9.48	---

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