UBS Group AG (UBS)

Updated February 2nd, 2023 by Aristofanis Papadatos

Key Metrics

Current Price:	$22	**5 Year CAGR Estimate:**	4.0%	**Market Cap:**	$67.0 B
Fair Value Price:	$20	**5 Year Growth Estimate:**	4.0%	**Ex-Dividend Date:**	4/12/2023[1]
% Fair Value:	113%	**5 Year Valuation Multiple Estimate:**	-2.4%	**Dividend Payment Date:**	4/14/2023
Dividend Yield:	2.5%	**5 Year Price Target**	$24	**Years Of Dividend Growth:**	2
Dividend Risk Score:	C	**Retirement Suitability Score:**	D	**Rating:**	Hold

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 $67.0 billion and offers investment, retail, corporate and institutional banking, in addition to wealth management planning and asset management services.

In late January, UBS reported (1/31/23) financial results for the fourth quarter of fiscal 2022. The global wealth management segment, which generated most of the earnings of the bank, grew its pre-tax profit by an eye-opening 88% over the prior year's quarter. Net interest income grew 35% thanks to higher interest rates, which greatly enhanced net interest margin. Recurring net fee income dipped -17%, mostly due to negative performance of the stock market. Moreover, transaction-based income decreased -19% due to highly volatile markets, which discouraged investors from performing many transactions. The total pre-tax income of UBS grew 12% over the prior year's quarter.

UBS was hurt by the pandemic in 2020, but it has emerged stronger, mostly thanks to the unprecedented fiscal stimulus packages offered by most governments, which have greatly increased the cash pile of consumers and companies. The bank is now hurt by high inflation, which has caused high volatility in the stock market and hence lower client activity. However, high interest rates have greatly enhanced net interest margin and thus they have offset the headwinds.

Growth on a Per-Share Basis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Book/S	$14.30	$14.00	$14.80	$14.20	$14.10	$14.40	$15.07	$16.76	$17.07	$18.30	***$19.50***	***$23.72***
DPS	$0.22	$0.58	$0.77	$0.59	$0.67	$0.71	$0.69	$0.73	$0.37	$0.50	***$0.55***	***$0.67***
Shares[2]	3,768	3,629	3,751	3,712	3,721	3,821	3,745	3,713	3,574	3,182	***3,100***	***3,000***

UBS Group has enjoyed strong business momentum in the last two years 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 3% average annual rate over the last decade, with a remarkably volatile performance record. Given the improved momentum, we assume 4% annual growth of book value per share over the next five years.

Valuation Analysis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Now	2028
Avg. P/B	---	1.25	1.35	1.01	1.15	1.15	0.80	0.70	0.95	0.95	***1.13***	***1.00***
Avg. Yld.	0.0%	2.9%	2.5%	0.0%	3.3%	5.3%	5.7%	6.2%	2.3%	2.9%	***2.5%***	***2.8%***

[1] Annual Dividend.

[2] In millions.

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UBS failed to post a meaningful profit during the 2009-2013 period. In the last nine years, the stock has traded at an average price-to-book value ratio of 1.03. The stock is now trading at a price-to-book value ratio of 1.13. 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 -2.4% annualized drag in its returns during this period.

Safety, Quality, Competitive Advantage, & Recession Resiliency

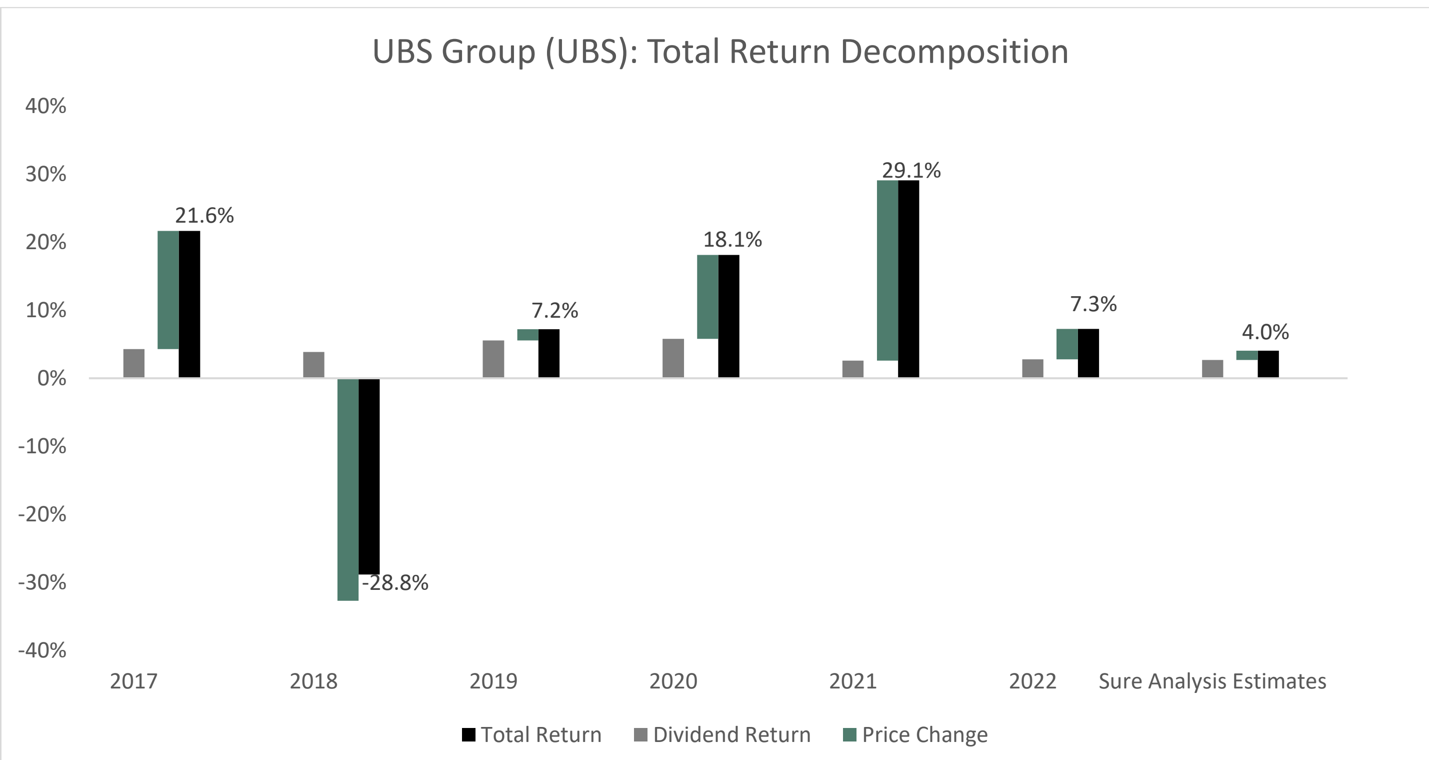
Year	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**	**2022**	**2023**	**2028**
Payout	92%	52%	51%	70%	230%	57%	61%	43%	18%	24%	***23%***	***26%***

UBS currently offers a 2.5% dividend yield. This yield is higher than the 1.5% yield of the S&P 500 and is well covered this year, with a healthy payout ratio of 23%. 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 and is now trading close to its all-time highs. Consequently, the stock has become less attractive. UBS could offer a 4.0% average annual return over the next five years thanks to 4.0% growth and its 2.5% dividend, which may be partly offset by a -2.4% valuation headwind. The stock maintains its hold rating. 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	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Revenue	30757	28126	30231	28600	29622	29981	28969	33084	35394	34454
SG&A Exp.	22293	19985	20959	20431	20579	20342	19944	22109	23940	22521
D&A Exp.	1013	910	1039	1090	1124	1293	1830	2126	2118	---
Net Profit	3804	3649	6276	3348	969	4515	4304	6629	7457	7629
Net Margin	12.4%	13.0%	20.8%	11.7%	3.3%	15.1%	14.9%	20.0%	21.1%	22.1%
Free Cash Flow	59876	5350	1283	-20.0B	-53.7B	27225	18121	35104	29584	---
Income Tax	-124	-1193	-909	777	4305	1468	1267	1583	1998	1942

Balance Sheet Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Total Assets ($B)	1141.8	1074.5	953.8	918.9	939.3	958.5	972.2	1,126	1,117	1,104
Cash & Eq. ($B)	106.8	120.1	105.7	105.9	91.4	109.7	108.4	158.2	192.8	169.4
Goodwill & Int.	7091	6862	6645	6442	6563	6647	6469	6480	6378	6267
Total Liab. ($B)	1085.6	1019.5	895.9	865.3	886.7	905.4	917.5	1,066	1,056	1,047
Accounts Payable	39,094	41,067	47,826	---	---	39,964	38,795	38,742	44,045	45,085
LT Debt ($B)	91.9	92.2	94.2	150.9	193.9	181.3	172.1	200.5	213.0	188.3
Total Equity	54089	51180	55960	52916	52495	52928	54533	59517	60662	56876
LTD/E Ratio	1.70	1.80	1.68	2.85	3.69	3.43	3.16	3.37	3.51	3.31

Profitability & Per Share Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Return on Assets	0.3%	0.3%	0.6%	0.4%	0.1%	0.5%	0.4%	0.6%	0.7%	0.7%
Return on Equity	7.3%	6.9%	11.7%	6.2%	1.8%	8.6%	8.0%	11.6%	12.4%	13.0%
ROIC	2.4%	2.5%	4.2%	1.9%	0.4%	1.8%	1.8%	2.7%	2.8%	2.9%
Shares Out.	3,768	3,629	3,751	3,712	3,721	3,821	3,745	3,713	3,574	3,397
Revenue/Share	8.00	7.39	8.00	7.48	7.72	7.80	7.68	8.92	9.78	10.14
FCF/Share	15.58	1.41	0.34	-5.25	-14.00	7.09	4.81	9.48	8.16	---

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