



UBS Group AG (UBS)

Updated August 31st, 2023 by Aristofanis Papadatos

Key Metrics

Current Price:	\$26	5 Year CAGR Estimate:	6.7%	Market Cap:	\$75.4 B
Fair Value Price:	\$27	5 Year Growth Estimate:	4.0%	Ex-Dividend Date:	4/10/2024 ¹
% Fair Value:	96%	5 Year Valuation Multiple Estimate:	0.8%	Dividend Payment Date:	4/12/2024
Dividend Yield:	2.1%	5 Year Price Target	\$33	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 \$75.4 billion and offers investment, retail, corporate and institutional banking, in addition to wealth management planning and asset management services.

On March 19th, 2023, UBS agreed to acquire Credit Suisse in an all-stock deal valued at \$3.25 billion. UBS rescued Credit Suisse, which had incurred massive cash outflows (\$69 billion in the first quarter) from its depositors, who lost faith in the bank after the collapse of Silicon Valley Bank. The deal is expected to close in 2024. We consider the deal positive for UBS, as it will enhance the scale and reputation of the bank. Credit Suisse has already begun to turn around, as it enjoyed net deposit inflows of \$18 billion in Q2-2023 and has maintained its momentum in the running quarter.

In late August, UBS reported (8/31/23) financial results for the second quarter of fiscal 2023. The global wealth management segment, which generated most of the earnings of the bank, saw its pre-tax profit dip -4% over last year's quarter. Net interest income grew 45% thanks to higher interest rates, which greatly enhanced net interest margin, and recurring net fee income grew 5%. Pre-tax profit plunged -58% due to losses of Credit Suisse. Given the acquisition of Credit Suisse, we have raised our forecast for book value per share at the end of the year from \$19.50 to \$27.00.

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	\$27.00	\$32.85
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
Shares²	3,768	3,629	3,751	3,712	3,721	3,821	3,745	3,713	3,574	3,182	3,150	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. Excluding the takeover of Credit Suisse, UBS has grown its book value per share at a 3% average annual rate over the last decade, with a volatile performance record. Given the improved business momentum, we assume 4% annual growth of book value per share over the next 5 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	0.96	1.00
Avg. Yld.	0.0%	2.9%	2.5%	0.0%	3.3%	5.3%	5.7%	6.2%	2.3%	2.9%	2.1%	2.0%

¹ Estimated date for annual dividend.

² In millions.

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UBS failed to post a meaningful profit during the 2009-2013 period. UBS is now trading at a price-to-book value ratio of 0.96, which is lower than the 9-year average ratio of 1.03 of the stock. 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 enjoy a 0.8% annualized gain in its returns during this period.

Safety, Quality, Competitive Advantage, & Recession Resiliency

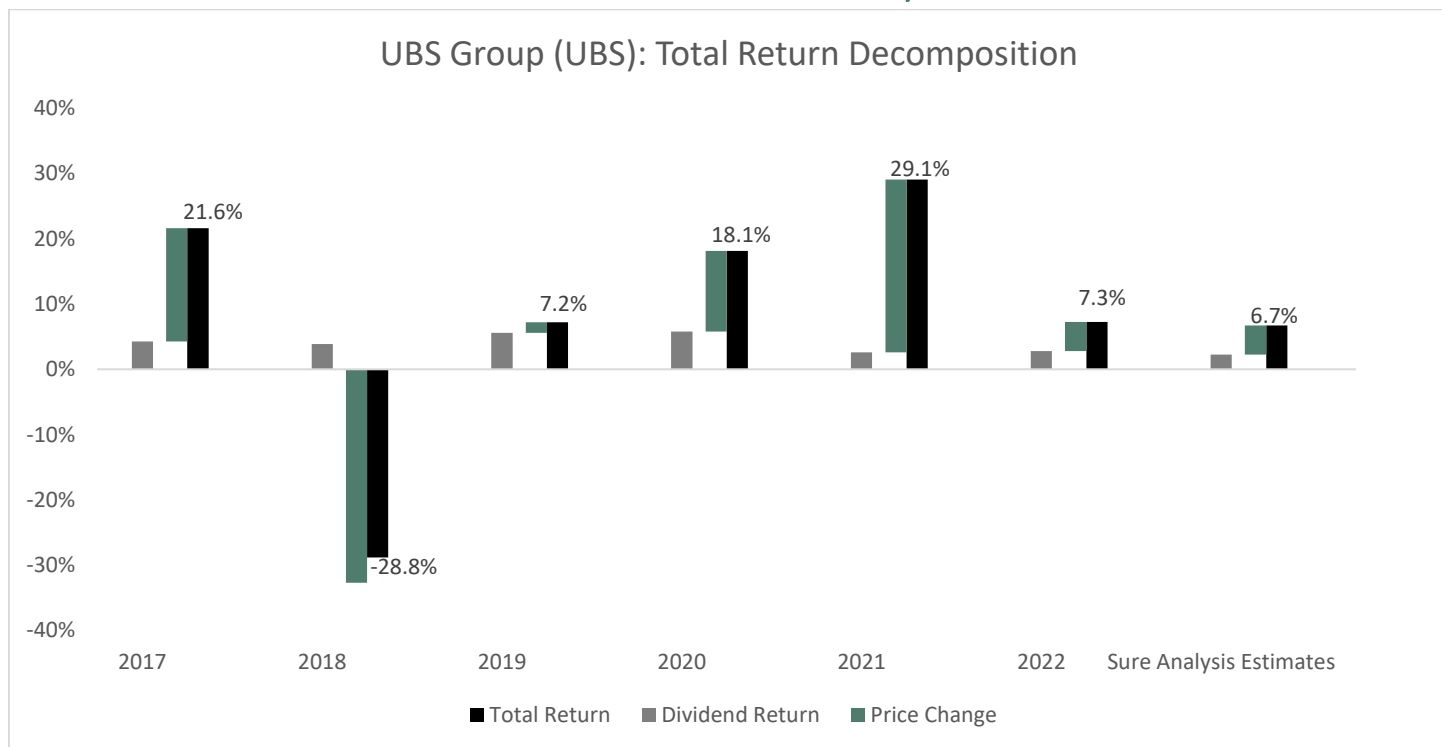
Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	92%	52%	51%	70%	230%	57%	61%	43%	18%	24%	23%	26%

UBS currently offers a 2.1% 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. We also view the recent takeover of Credit Suisse as positive, as we are confident that the valuation of the rescue deal was positive for the rescuer (UBS). However, as the stock of UBS has more than tripled off its bottom in 2020, it has become less attractive. UBS could offer a 6.7% average annual return over the next five years thanks to 4.0% growth, its 2.1% dividend and a 0.8% valuation tailwind. 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	33270
SG&A Exp.	22293	19985	20959	20431	20579	20342	19944	22109	23940	21324
D&A Exp.	1013	910	1039	1090	1124	1293	1830	2126	2118	2061
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	13004
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	172.8
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	47,034
LT Debt (\$B)	91.9	92.2	94.2	150.9	193.9	181.3	172.1	200.5	213.0	189.9
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	3.34

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	9.79
FCF/Share	15.58	1.41	0.34	-5.25	-14.00	7.09	4.81	9.48	8.16	3.83

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

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