# UBS Group AG (UBS)

*Updated November 10th, 2023 by Aristofanis Papadatos*

## Key Metrics

| | | | | | |
|---|---|---|---|---|---|
| **Current Price:** | $25 | **5 Year CAGR Estimate:** | 7.5% | **Market Cap:** | $80.2 B |
| **Fair Value Price:** | $27 | **5 Year Growth Estimate:** | 4.0% | **Ex-Dividend Date:** | 4/10/2024[1] |
| **% Fair Value:** | 93% | **5 Year Valuation Multiple Estimate:** | 1.6% | **Dividend Payment Date:** | 4/12/2024 |
| **Dividend Yield:** | 2.2% | **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 $80.2 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. We consider the deal positive for UBS, as it has enhanced 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 the second quarter and maintained positive momentum in the third quarter.

In early November, UBS reported (11/7/23) financial results for the third quarter of fiscal 2023. The global wealth management segment, which generated most of the earnings of the bank, saw its pre-tax profit dip -9% over last year's quarter. Net interest income remained in an uptrend thanks to higher interest rates, which enhanced net interest margin, but pre-tax profit plunged -59% due to excessive operating expenses of Credit Suisse and integration-related expenses. Most of these costs are non-recurring. We expect UBS to greatly benefit from the takeover of Credit Suisse.

## 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*** |
| **Shares[2]** | 3,768 | 3,629 | 3,751 | 3,712 | 3,721 | 3,821 | 3,745 | 3,713 | 3,574 | 3,182 | ***3,200*** | ***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 | ***0.93*** | ***1.00*** |
| **Avg. Yld.** | 0.0% | 2.9% | 2.5% | 0.0% | 3.3% | 5.3% | 5.7% | 6.2% | 2.3% | 2.9% | ***2.2%*** | ***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 0.93, 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 1.6% annualized gain in its returns during this period.

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

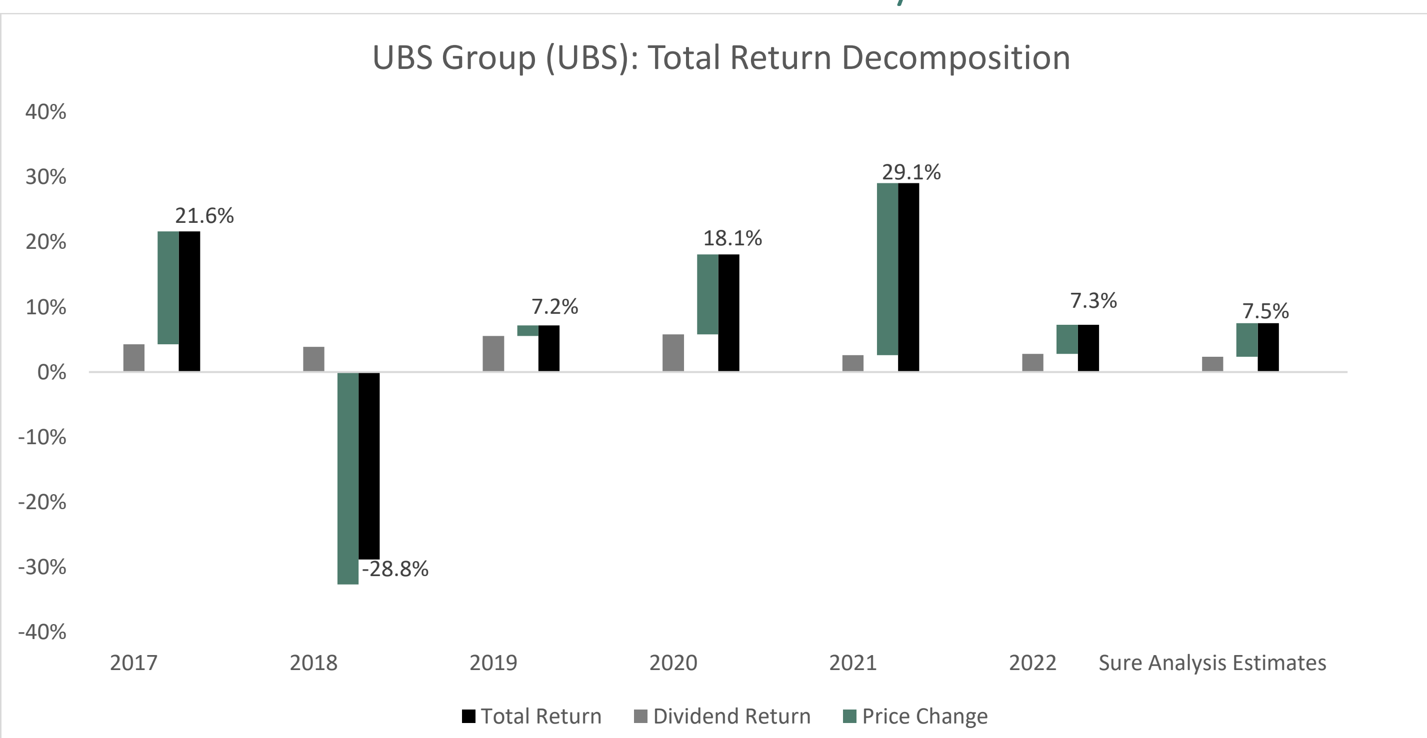
| Year | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2028 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Payout | 92% | 52% | 51% | 70% | 230% | 57% | 61% | 43% | 18% | 24% | ***23%*** | ***26%*** |

UBS currently offers a 2.2% 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 7.5% average annual return over the next five years thanks to 4.0% growth, its 2.2% dividend and a 1.6% 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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*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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## 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.*