UBS Group AG (UBS)

Updated November 15th, 2024 by Aristofanis Papadatos

Key Metrics

Current Price:	$32	**5 Year CAGR Estimate:**	3.4%	**Market Cap:**	$101 B
Fair Value Price:	$28	**5 Year Growth Estimate:**	4.0%	**Ex-Dividend Date:**	4/30/2025[1]
% Fair Value:	114%	**5 Year Valuation Multiple Estimate:**	-2.6%	**Dividend Payment Date:**	5/2/2025
Dividend Yield:	2.2%	**5 Year Price Target**	$34	**Years Of Dividend Growth:**	3
Dividend Risk Score:	D	**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 $101 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 of 2023) 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 has enjoyed material net deposit inflows this year and has maintained positive momentum since its takeover.

In late October, UBS reported (10/30/24) financial results for the third quarter of fiscal 2024. The global wealth management segment, which generated 54% of the profit of the bank, grew its pre-tax profit 28% over the prior year's quarter thanks to the takeover of Credit Suisse. Total pre-tax profit grew from $0.4 billion to $1.5 billion, primarily thanks to the acquisition of Credit Suisse. We expect UBS to continue to greatly benefit from this acquisition in the upcoming years. UBS is also likely to benefit from higher client activity this year.

Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Book/S	$14.00	$14.80	$14.20	$14.10	$14.40	$15.07	$16.76	$17.07	$18.30	$27.20	***$28.00***	***$34.07***
DPS	$0.58	$0.77	$0.59	$0.67	$0.71	$0.69	$0.73	$0.37	$0.50	$0.55	***$0.70***	***$0.80***
Shares[2]	3,629	3,751	3,712	3,721	3,821	3,745	3,713	3,574	3,182	3,226	***3,200***	***3,000***

UBS Group has enjoyed strong business momentum in the last three 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. Thanks to the takeover of Credit Suisse, UBS has grown its book value per share at a 7.7% average annual rate over the last decade, with a volatile performance record. Given the high comparison base this year, we assume 4% annual growth of book value per share until 2029.

Valuation Analysis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Now	2029
Avg. P/B	1.25	1.35	1.01	1.15	1.15	0.80	0.70	0.95	0.95	0.83	***1.14***	***1.00***
Avg. Yld.	2.9%	2.5%	0.0%	3.3%	5.3%	5.7%	6.2%	2.3%	2.9%	2.4%	***2.2%***	***2.4%***

[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 currently trading at a price-to-book value ratio of 1.14, which is higher than the 9-year average ratio of 1.01 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 assumed fair valuation level in five years, it will incur a -2.6% annualized valuation drag over the next five years.

Safety, Quality, Competitive Advantage, & Recession Resiliency

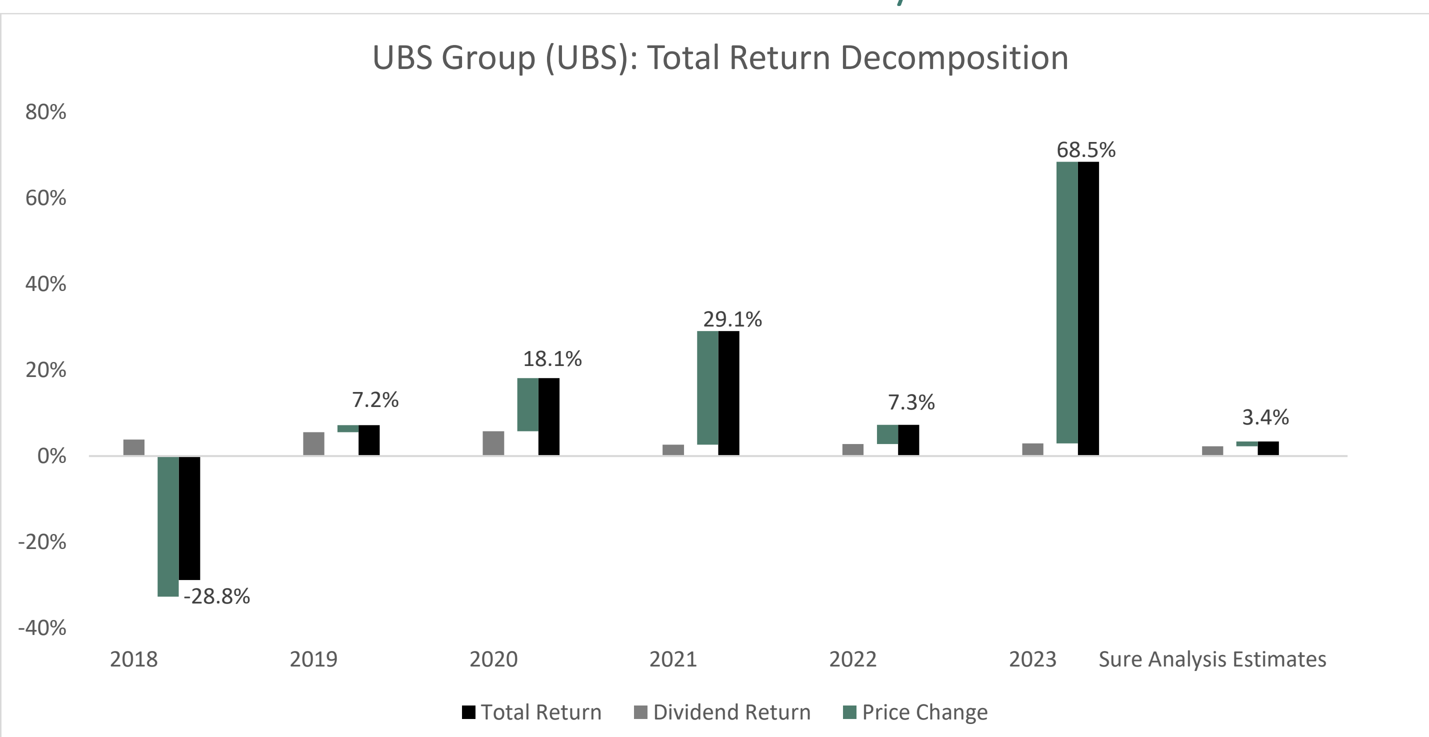
Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	52%	51%	70%	230%	57%	61%	43%	18%	24%	26%	***29%***	***31%***

UBS currently offers a 2.2% dividend yield. This yield is higher than the 1.2% yield of the S&P 500 and is well covered this year, with a healthy payout ratio of 29%. 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 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 3.4% average annual return over the next five years thanks to 4.0% growth and its 2.2% dividend, partly offset by a -2.6% 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



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	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Revenue	28126	30231	28600	29622	29981	28969	33084	35394	33270	39063
SG&A Exp.	19985	20959	20431	20579	20342	19944	22109	23940	21324	30356
D&A Exp.	910	1039	1090	1124	1293	1830	2126	2118	2061	3750
Net Profit	3649	6276	3348	969	4515	4304	6629	7457	7629	29027
Net Margin	13.0%	20.8%	11.7%	3.3%	15.1%	14.9%	20.0%	21.1%	22.1%	74.3%
Free Cash Flow	5350	1283	-20.0B	-53.7B	27225	18121	35104	29584	13004	84383
Income Tax	-1193	-909	777	4305	1468	1267	1583	1998	1942	873

Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Assets ($B)	1074.5	953.8	918.9	939.3	958.5	972.2	1,126	1,117	1,104	1,718
Cash & Eq. ($B)	120.1	105.7	105.9	91.4	109.7	108.4	158.2	192.8	172.8	314.1
Goodwill & Int.	6862	6645	6442	6563	6647	6469	6480	6378	6267	7515
Total Liab. ($B)	1019.5	895.9	865.3	886.7	905.4	917.5	1,066	1,056	1,047	1,630
Accounts Payable	41,067	47,826	---	---	39,964	38,795	38,742	44,045	47,034	42,522
LT Debt ($B)	92.2	94.2	150.9	193.9	181.3	172.1	200.5	213.0	189.9	366.1
Total Equity	51180	55960	52916	52495	52928	54533	59517	60662	56876	87285
LTD/E Ratio	1.80	1.68	2.85	3.69	3.43	3.16	3.37	3.51	3.34	4.19

Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Return on Assets	0.3%	0.6%	0.4%	0.1%	0.5%	0.4%	0.6%	0.7%	0.7%	2.1%
Return on Equity	6.9%	11.7%	6.2%	1.8%	8.6%	8.0%	11.6%	12.4%	13.0%	40.0%
ROIC	2.5%	4.2%	1.9%	0.4%	1.8%	1.8%	2.7%	2.8%	2.9%	8.3%
Shares Out.	3,629	3,751	3,712	3,721	3,821	3,745	3,713	3,574	3,397	3,296
Revenue/Share	7.39	8.00	7.48	7.72	7.80	7.68	8.92	9.78	9.79	11.85
FCF/Share	1.41	0.34	-5.25	-14.00	7.09	4.81	9.48	8.16	3.83	25.60

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