UBS Group AG

Europe Satellite*	Recommended since	15.01.2015	06.12.2024

Country	CH	Market capitalization (bn)	CHF	100.3	Perf. since reco. (%)	
Sector	Banks	Free float	92.5%		UBS Group AG	96.6
Factset	UBSG-CH	Closing price	CHF	28.96	Sector	16.4
ISIN	CH0244767585	ESG Risk score*	26.8	Medium risk		

Profile

UBS is Switzerland's largest diversified bank, formed through the 1998 merger between UBS and SBS. UBS currently operates through five business units: Global Wealth Management (GWM: 53% of group revenue), the Investment Bank (IB: 30%), Personal & Corporate Banking (P&C – retail banking in Switzerland: 11%), Asset Management (AM: 6%) and Corporate Center (CC). The bank's head office is in Zurich.

Strengths/opportunities

- A preponderance of high-return businesses that consume little capital (GWM and AM).
- Strong balance sheet (high-quality assets) and high solvency.
- Investment Bank is client-centric and fairly stable.

Weaknesses/threats

- Significant Credit Suisse integration risk of.
- Interest income penalised by low interest rates.
- Persistent legal risk (in France) is blighting its reputation.

Investment case

- UBS has fundamentally shifted its strategy since the 2008-9 financial crisis. The Investment Bank is now much smaller and, above all, focuses exclusively on transactions on behalf of clients. The business unit's capital consumption has been drastically reduced by significantly derisking the balance sheet. Its earnings are now more resilient than the sector average.
- This recipe, which has proved its worth, is now being applied to the Credit Suisse businesses that UBS acquired at a good price. This will enable the group to build up comfortable reserves to deal with any unforeseen events associated with the integration of these assets.
- At the same time, with the arrival of Iqbal Khan as head of GWM, the latter has become more agile, with a streamlined management structure and cost structure. The operating leverage offered by this powerful source of revenue should improve, helping boost the group's profitability.
- The balance sheet is very strong, and the Group's high solvency will enable management to resume a policy of return to shareholders ($1bn share buyback in H2'24), once Credit Suisse has been effectively integrated.

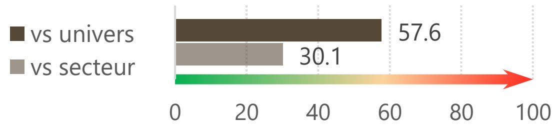
Valuation

UBS is trading at a 30% premium to the sector on a 25e book value basis. As the Group is undergoing major restructuring until 2026, PE is not a very relevant measure. Similarly, ROE will only be meaningful at the end of the process.

USD	12/2023	2024e	2025e
Sales revenue (mio)	39 062	47 767	47 407
Sales growth	*13.0%*	*22.3%*	*-0.8%*
EBIT adjusted (mio)	6 970	7 430	9 559
% of sales	*17.8%*	*15.6%*	*20.2%*
Net income (mio)	27 850	4 995	6 660
Net income growth	*265.1%*	*-82.1%*	*33.3%*
CET1	14.5%	14.5%	14.8%
ROE	1.2%	6.1%	7.2%
Dividend yield	2.1%	2.5%	2.7%
PE	3.3x	18.8x	15.2x
P/BV	1.2x	1.1x	1.1x

Factset estimates

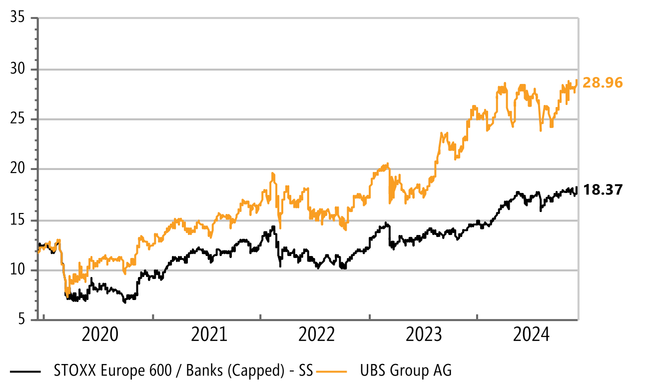
ESG risk vs. universe & sector (percentile)*



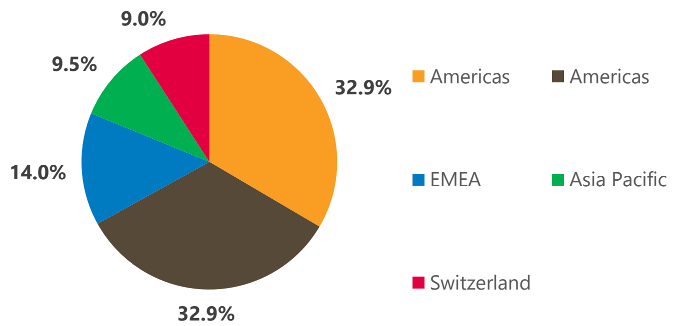
ESG - risks and key points

- UBS's risk in relation to business ethics is higher than the sector average. Some of its practices in relation to tax evasion have been the subject of past controversies.
- The group also carries a high level of risk in relation to the governance of some products sold to clients. Action now taken by management is a step in the right direction.
- UBS does not set a good example when it comes to gender equality.

5-year performance vs sector



Sales breakdown - 12/2023



*: see overleaf

Source: Factset, Sustainalytics

Glossary

Satellite

From 2015, B&Cie separates its investment recommendations into Core Holdings (higher organic growth potential, high free cash flow, ROCE in excess of the cost of capital and balance sheet efficiency throughout the cycle) and Satellite Recommendations, which do not meet the above criteria but are likely to outperform in the short-to-medium term.

ESG Risk Score

At B&Cie, we take particular care to ensure that the companies in which we recommend investing are sustainable. Accordingly, our selection process takes account of risks relating to environmental, social and governance (ESG) issues. This approach is underpinned by research from Sustainalytics, the global leader in ESG and corporate governance analysis, whose methodology aims to identify major controversies and risks and assess a company's ESG risks relative to both its sector and the investment universe as a whole. The corresponding score is expressed as a percentile: the lower the overall risk score, the lower the risk within the investment universe.

b-Digital, b-Transition & b-Well

Over and above the conventional geographical and sectoral approaches to asset management, at B&Cie we believe the world of tomorrow is being shaped by structural trends. We have identified three main megatrends: ongoing digital globalisation of the economy; economic transition, particularly in the energy sector; and the quest for wellness. We believe selecting and investing in companies that play an active role in these transformations should lead to more resilient portfolios that generate higher long-term returns. Our investment recommendations in the digital globalisation space are labelled "b-Digital", those in the economic transition space "b-Transition" and those in the wellness space "b-Well". A given recommendation may fall under more than one theme, in which case it will carry the relevant matching labels.

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