

UBS

Filling in the gaps

Reiterate Rating: NEUTRAL | PO: 28.00 CHF | Price: 24.56 CHF

US\$6, but not until 2028E

UBS provided considerable detail on the pace and costs of its Credit Suisse integration through 2024-26 (for our forecasts, see Exhibit 3). We broadly see UBS meeting its new goals, with our EPS cut by US\$0.34-US\$1.00 over the next three years, shown in Exhibit 1. We include a new 2028E EPS, at close to US\$6 - consistent with the group achieving its goal of an 18% Return on Common Equity Tier 1 (Exhibit 2).

Higher dividends, a steep buyback curve

We raise our expected 2024E dividend by 39% to US\$0.82, for a 3% yield. We see a steep path for distributions – flat y/y in 2024E at US\$3.6bn between dividends and buybacks, rising to US\$6bn 2025E and US\$10bn by 2027E (Exhibit 4).

Balance sheet rigidities take time to fade

We discussed in [Similarities and differences](#) and [UBS: Downgrade to Neutral 05 December 2023](#) (report links) how it may take some time before UBS can realise full balance sheet efficiencies from Credit Suisse. Exhibit 5 and Exhibit 6 show updated figures illustrating these constraints, the fading of which do however contribute to the post-2026 step up in profits.

A strong picture, building over time

We believe the finished UBS will be an attractive business, with the ability to grow faster than European banking at a higher Return on Equity. This supports our Price Objective unchanged at CHF28. We reiterate our Neutral rating.

Estimates (Dec) (USD)	2022A	2023A	2024E	2025E	2026E
Net Profit (US\$m)	7,630	29,028	1,591	7,249	10,012
EPS (Adjusted Diluted)	2.27	8.90	0.48	2.26	3.31
Dividend / Share	0.55	0.70	0.82	0.92	1.02
Adjusted NAV PS	15.1	24.5	23.6	24.6	26.5
EPS (Adjusted Diluted - UBS - US\$)	2.27	8.90	0.48	2.26	3.31
Dividend / Share (UBS - US\$)	0.55	0.70	0.82	0.92	1.02
Valuation (Dec)					
P/E	12.2	3.4	61.0	13.1	8.9
EPS Change (YoY)	8.42%	292%	-94.6%	367%	46.5%
Price / BV	1.64x	1.10x	1.11x	1.05x	0.96x
Price / NAV	1.96x	1.21x	1.25x	1.20x	1.11x
Net Yield	1.87%	2.37%	2.78%	3.12%	3.46%
DPS Change (YoY)	10.0%	27.3%	17.0%	12.2%	10.9%
Price / GOP	10.3x	3.11x	30.7x	9.25x	6.71x

06 February 2024

Equity

Key Changes

(US\$)	Previous	Current
2024E EPS	0.82	0.48
2025E EPS	2.85	2.26
2026E EPS	NA	3.31
2024E DPS	0.59	0.82

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Stock Data

Price (SWX / NYS)	24.56 CHF / 28.10 USD
Price Objective	28.00 CHF / 32.18 USD
Date Established	5-Dec-2023 / 5-Dec-2023
Investment Opinion	B-2-7 / B-2-7
52-Week Range	14.19 CHF-26.55 CHF
Market Value (mn)	92,125 CHF
Shares Outstanding (mn)	3,751.0 / 3,751.0
Average Daily Value (mn)	147.27 USD
Free Float	84.0%
BofA Ticker / Exchange	XUHJF / SWX
BofA Ticker / Exchange	UBS / NYS
Bloomberg / Reuters	UBSG SW / UBSG.S
ROE (2024E)	1.8%
ESGMeter™	High

ESGMeter is not indicative of a company's future stock price performance and is not an investment recommendation or rating. ESGMeter is independent of BofA Global Research's equity investment rating, volatility risk rating, income rating, and price objective for that company. For full details, refer to ["BofA ESGMeter Methodology"](#).

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Refer to important disclosures on page 8 to 11. Analyst Certification on page 6. Price Objective Basis/Risk on page 6.

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Timestamp: 06 February 2024 01:34PM EST

iQprofileSM UBS

Key Income Statement Data (Dec)	2022A	2023A	2024E	2025E	2026E
(US\$ Millions)	IFRS	IFRS	IFRS	IFRS	IFRS
Net Interest Income	6,621	7,297	14,127	14,186	14,502
Net Fee Income	18,966	21,570	24,158	25,125	26,130
Securities Gains / (Losses)	7,517	11,583	7,000	7,000	7,000
Other Income	1,459	29,309	1,184	1,413	1,905
Total Non-Interest Income	27,942	62,462	32,342	33,538	35,035
Total Operating Income	34,563	69,759	46,469	47,723	49,537
Operating Expenses	(24,930)	(38,805)	(43,310)	(37,479)	(36,222)
Pre-Provision Profit	9,633	30,954	3,159	10,244	13,316
Provisions Expense	(29.0)	(1,037)	(350)	(300)	(300)
Operating Profit	9,604	29,917	2,809	9,944	13,016
Non-Operating Items	0	0	0	0	0
Pre-Tax Income	9,604	29,917	2,809	9,944	13,016
Net Income to sh/holders	7,630	29,028	1,591	7,249	10,012
Adjusted Cash Earnings	7,630	29,028	1,591	7,249	10,012

Key Balance Sheet Data

Total Assets	1,104,363	1,717,568	1,627,888	1,576,493	1,639,601
Average Interest Earning Assets	573,622	755,492	946,464	929,031	935,304
Weighted Risk Assets	319,500	546,500	514,684	508,235	507,194
Total Gross Customer Loans	387,920	640,942	641,014	666,693	693,396
Total Customer Deposits	525,051	792,029	792,029	831,630	873,212
Tier 1 Capital	59,672	93,155	95,110	96,266	97,365
Tangible Equity	50,609	79,770	77,725	79,126	80,225
Common Shareholders' Equity	56,876	87,285	85,240	86,641	87,740

Key Metrics

Net Interest Margin	1.15%	0.97%	1.49%	1.53%	1.55%
Tier 1 Ratio	18.7%	17.0%	18.5%	18.9%	19.2%
Core Tier 1 Ratio	14.2%	14.5%	15.0%	14.6%	14.9%
Basel 3 "fully phased in" Tier 1 Ratio	14.2%	14.5%	15.0%	14.6%	14.9%
Effective Tax Rate	20.2%	2.92%	43.0%	27.0%	23.0%
Loan / Assets Ratio	35.1%	37.3%	39.3%	42.2%	42.2%
Loan / Deposit Ratio	73.7%	80.8%	80.8%	80.1%	79.3%
Oper Leverage (Inc Growth - Cost Growth)	1.98%	46.2%	-45.0%	16.2%	7.16%
Gearing (Assets / Equity)	19.4x	19.7x	19.1x	18.2x	18.7x
Tangible Equity / Assets	4.58%	4.64%	4.77%	5.02%	4.89%
Tangible Equity / WRAs	15.8%	14.6%	15.1%	15.6%	15.8%

Business Performance

Revenue Growth	-2.35%	102%	-33.4%	2.70%	3.80%
Operating Expense Growth	-4.33%	55.7%	11.6%	-13.5%	-3.36%
Provisions Expense Growth	-120%	3,476%	-66.2%	-14.3%	0%
Operating Revenue / Average Assets	0.86%	2.12%	0.17%	0.62%	0.81%
Operating Expenses / Average Assets	-2.24%	-2.75%	-2.59%	-2.34%	-2.25%
Pre-Provision ROA	0.87%	2.19%	0.19%	0.64%	0.83%
ROA	0.69%	2.06%	0.10%	0.45%	0.62%
Pre-Provision ROE	16.4%	42.9%	3.66%	11.9%	15.3%
ROE	13.0%	40.3%	1.84%	8.44%	11.5%
RoTE	14.5%	44.5%	2.02%	9.24%	12.6%
RoWRAs	2.45%	6.70%	0.30%	1.42%	1.97%
Dividend Payout Ratio	23.8%	7.74%	167%	40.0%	30.3%
Efficiency Ratio (Cost / Income Ratio)	72.1%	55.6%	93.2%	78.5%	73.1%

Quality of Earnings

Total Non-Interest Inc / Operating Inc	80.8%	89.5%	69.6%	70.3%	70.7%
Market-Related Revenue / Total Revenues	25.2%	12.4%	21.4%	21.3%	21.3%
Provisioning Burden as % of PPP	0.30%	3.35%	11.1%	2.93%	2.25%
NPLs plus Foreclosed Real Estate / Loans	0.75%	0.50%	0.55%	0.57%	0.59%
Loan Loss Reserves / NPLs	0%	0%	0%	0%	0%
Loan Loss Reserves / Total Loans	0.18%	0.12%	0.13%	0.14%	0.14%
Provisions Expense / Average Loans	0.01%	0.20%	0.05%	0.05%	0.04%

Company Sector

Banks-Multinational/Universal

Company Description

UBS is a Swiss based investment and private bank. The business strategy is centred on the company's global wealth management businesses and universal bank in Switzerland. The company also has an Investment Banking division and Global Asset Management business. UBS has offices in 50 countries, with about 35% of its employees working in the Americas, 36% in Switzerland, 17% in the rest of Europe, the Middle East and Africa and 12% in Asia Pacific.

Investment Rationale

We believe that operational leverage is high. We see UBS's capital generation being strong enough to maintain the current dividend policy, with high payouts ongoing should litigation cases be settled and so long as the balance sheet allocated to the IB remains constrained. The acquisition of Credit Suisse adds scale in its core businesses. The integration of CS will dominate 2024, with dual running costs significant until completed.

Stock Data

Shares / Common - Dual Listed	1.00
Price to Book Value	1.1x

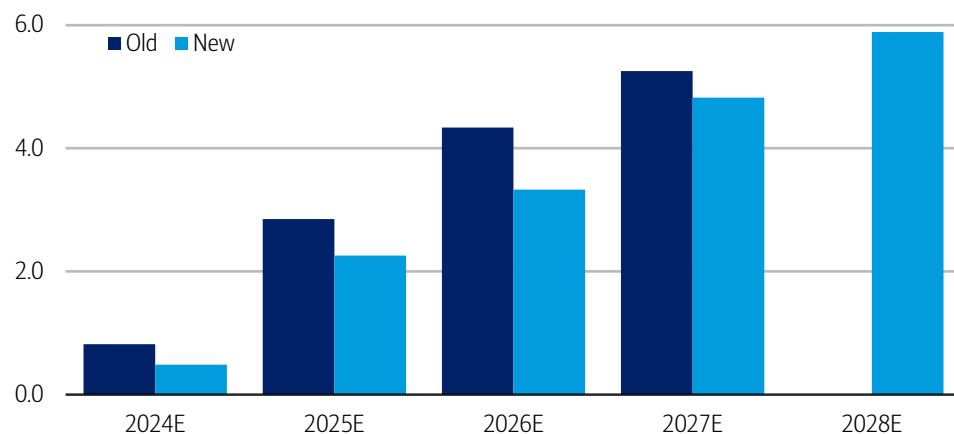
Key Changes

(US\$)	Previous	Current
2024E EPS	0.82	0.48
2025E EPS	2.85	2.26
2026E EPS	NA	3.31
2024E DPS	0.59	0.82

Key charts

Exhibit 1: downgraded forecasts 24E-27E, new US\$6 EPS 2028E

UBS EPS (US\$), prior and current, 2024-28E

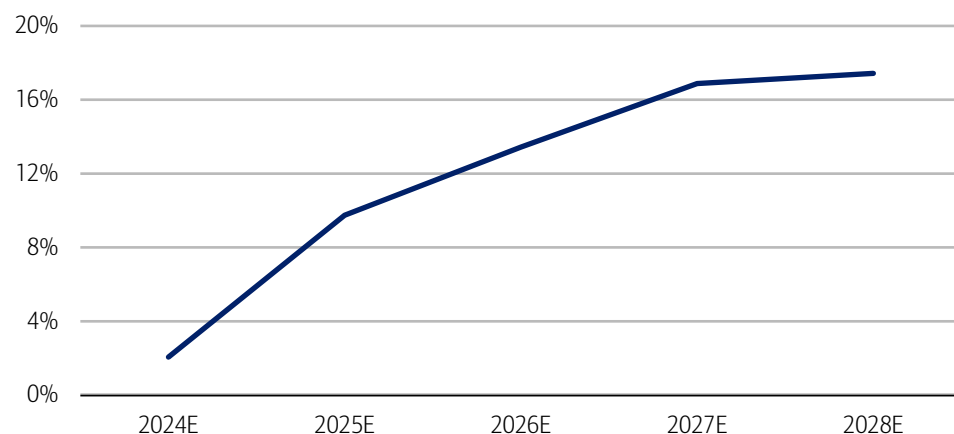


Source: BofA Global Research estimates

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Exhibit 2: a steep upward curve

UBS Return on Common Equity Tier 1 (%) 2024-28E



Source: BofA Global Research estimates

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Exhibit 3: Large moving parts: US\$10bn pull-to-par, US\$13bn restructuring, US\$29bn goodwill

UBS integration and acquisition impacts (US\$ mn) 2023-28E

Restructuring

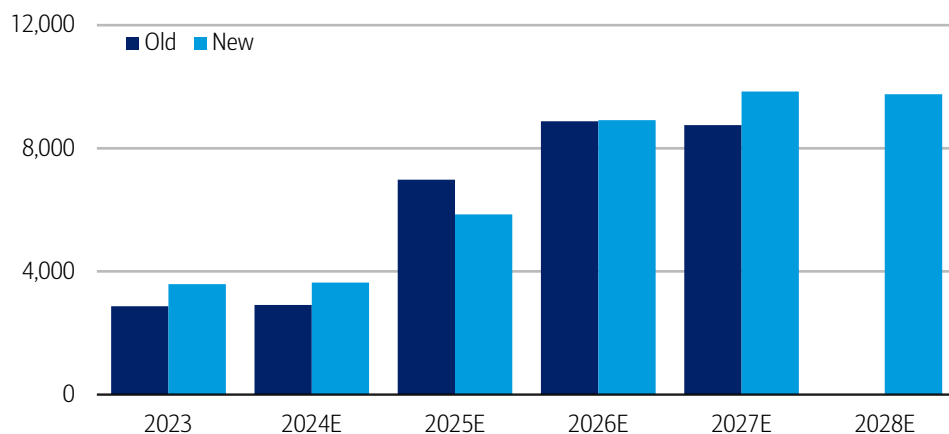
summary	2023	2024E	2025E	2026E	2027E	2028E
Pull to par revenues	2,348	2,350	1,900	1,400	800	800
One time costs	-4,745	-5,275	-1,800	-1,200	0	0
Goodwill	28,925					
Cumulative total pull to par						9,598
Cumulative total restructuring					-13,020	

Source: BofA Global Research estimates, company report

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Exhibit 4: the path to US\$10bn annual distributions

UBS total shareholder distributions 2023-28E (US\$ mn)

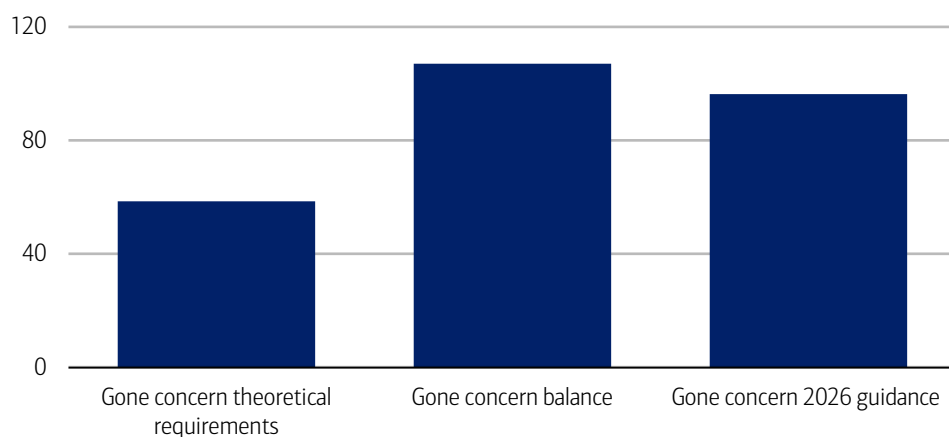


Source: BofA Global Research estimates, company report

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Exhibit 5: UBS still expects to hold a large Gone Concern debt surplus

UBS outstanding Gone Concern debt (US\$ bn)



Source: BofA Global Research estimates, company report

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Exhibit 6: UBS cash balances very high

UBS cash on hand and total assets (US\$ mn) 2023

	2Q 23	3Q 23	4Q 23
Cash	261,587	262,383	314,148
Assets	1,678,856	1,644,522	1,717,569
%	15.6%	16.0%	18.3%

Source: BofA Global Research estimates, company report

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Valuation

We value UBS using a Gordon growth model, shown in Exhibit 7.

Exhibit 7: UBS Gordon growth model 2026E (US\$, CHF)

A premium return, in the outer years

2026E

Net profit	10,012
Tangible NAV	80,225

Exhibit 7: UBS Gordon growth model 2026E (US\$, CHF)

A premium return, in the outer years

2026E

ROE	12%
COE	10%
G	3%
P/NAV	1.4
NAV per share	28.1
Implied value	39.1
Discounted to today	32
US\$/CHF	0.9
Price Objective	28
Note: CET1	75,473
% TNAV	94%
RO CET1	13%

Source: BofA Global Research estimates

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Price objective basis & risk

UBS (XUHJF / UBS)

Our PO for UBS is CHF28 (USD32.18 per ADR), which is based on a Gordon growth model. The acquisition of CS has strong industrial logic, raising share in Wealth and Switzerland. We see a 2026E Return on Equity above 14%, with 300bp surplus capital at that stage. However, the extended integration period depresses profits through 2024E and 2025E and raises reported tax rates. We see the cost of capital for the group at 10%.

Downside risks to our PO are weaker market levels, a weaker USD, and weaker rates which would all impact earnings and cash flows. Negative outcomes of litigation cases would also be a downside risk. Upside risks to our PO are a more generous change in regulatory rules than we expect, better market levels, a successful defence of major litigation cases and more client activity and slower balance sheet growth than indicated.

Analyst Certification

I, Alastair Ryan, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

EMEA - Banks Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
BUY				
	Allied Irish Banks	AIBRF	AIBG ID	Alastair Ryan
	Bank of Ireland Group	XBOIF	BIRG ID	Alastair Ryan
	BFF Banking Group	XBBZF	BFF IM	Antonio Reale
	BNP Paribas	BNPQF	BNP FP	Tarik El Mejjad
	BNP Paribas	BNPQY	BNPQY US	Tarik El Mejjad
	CaixaBank	CIXPF	CABK SQ	Antonio Reale
	Credit Agricole	CRARF	ACA FP	Tarik El Mejjad
	Danske Bank	DNSKF	DANSKE DC	Tarik El Mejjad
	Erste Bank	EBKOF	EBS AV	Alastair Ryan
	Erste Bank	EBKDY	EBKDY US	Alastair Ryan
	HSBC	XHSBF	5 HK	Alastair Ryan
	HSBC	HBCYF	HSBA LN	Alastair Ryan
	HSBC -A	HSBC	HSBC US	Alastair Ryan
	Intesa Sanpaolo	IITSF	ISP IM	Antonio Reale
	Intesa Sanpaolo	ISNPY	ISNPY US	Antonio Reale
	KBC Group	KBCSF	KBC BB	Tarik El Mejjad
	KBC Group NV	KBCSY	KBCSY US	Tarik El Mejjad
	NatWest Group	RBSPF	NWG LN	Rohith Chandra-Rajan
	Natwest Group PLC	NWG	NWG US	Rohith Chandra-Rajan
	Nordea	NBNKF	NDA FH	Tarik El Mejjad
	Nordea	XSABF	NDA SS	Tarik El Mejjad
	Nordea Bank Abp	NRDBY	NRDBY US	Tarik El Mejjad
	Santander	SAN	SAN US	Antonio Reale
	Santander	BCDRF	SAN SQ	Antonio Reale
	Societe Generale	SCGLF	GLE FP	Tarik El Mejjad
	Societe Generale	SCGLY	SCGLY US	Tarik El Mejjad
	Unicredit	UNCFF	UCG IM	Antonio Reale
	Unicredit	UNCRY	UNCRY US	Antonio Reale
NEUTRAL				
	ABN AMRO	ABMRF	ABN NA	Tarik El Mejjad
	Banco Bilbao Vizcaya Argentaria	BBVA	BBVA US	Antonio Reale
	Banco BPM	BNCZF	BAMI IM	Antonio Reale
	Bankinter	BKIMF	BKT SQ	Antonio Reale
	BBVA	BBVXF	BBVA SQ	Antonio Reale
	Handelsbanken	SVNLF	SHBA SS	Tarik El Mejjad

EMEA - Banks Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
	ING Groep NV	ING	ING US	Tarik El Mejjad
	ING Groep NV	INGVF	INGA NA	Tarik El Mejjad
	Lloyds Banking Group	LLDTF	LLOY LN	Rohith Chandra-Rajan
	Lloyds Banking Group	LYG	LYG US	Rohith Chandra-Rajan
	Monte dei Paschi	BMDPF	BMPS IM	Antonio Reale
	Raiffeisen Bank International	RAIFF	RBI AV	Alastair Ryan
	StanChart	SCBFF	STAN LN	Alastair Ryan
	StanChart	XCHBF	2888 HK	Alastair Ryan
	Svenska Handelsbanke	SVNLY	SVNLY US	Tarik El Mejjad
	UBS	XUHJF	UBSG SW	Alastair Ryan
	UBS	UBS	UBS US	Alastair Ryan

UNDERPERFORM

	Banco Sabadell	BNSDF	SAB SQ	Antonio Reale
	Barclays	BCLYF	BARC LN	Rohith Chandra-Rajan
	Barclays	BCS	BCS US	Rohith Chandra-Rajan
	Commerzbank	CRZBF	CBK GY	Rohith Chandra-Rajan
	Deutsche Bank	DB	DB US	Rohith Chandra-Rajan
	Deutsche Bank	XDUSF	DBK GY	Rohith Chandra-Rajan
	DNB	DNBBF	DNB NO	Tarik El Mejjad
	DNB ASA	DNBBY	DNBBY US	Tarik El Mejjad
	Mediobanca	MDIBF	MB IM	Antonio Reale
	Permanent TSB	ILPMF	PTSB ID	Alastair Ryan
	Poste Italiane	PITAF	PST IM	Antonio Reale
	SEB	SVKEF	SEBA SS	Tarik El Mejjad
	Swedbank	SWDBF	SWEDA SS	Tarik El Mejjad
	Swedbank AB	SWDBY	SWDBY US	Tarik El Mejjad
	Virgin Money UK PLC	CBBYF	VMUK LN	Rohith Chandra-Rajan
	Virgin Money UK PLC	CYBBF	VUK AU	Rohith Chandra-Rajan

iQmethodSM Measures Definitions

Business Performance

Return On Capital Employed

Return On Equity

Operating Margin

Earnings Growth

Free Cash Flow

Numerator

NOPAT = (EBIT + Interest Income) × (1 – Tax Rate) + Goodwill Amortization

Net Income

Operating Profit

Expected 5 Year CAGR From Latest Actual

Cash Flow From Operations – Total Capex

Denominator

Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill

Amortization

Shareholders' Equity

Sales

N/A

N/A

Quality of Earnings

Cash Realization Ratio

Asset Replacement Ratio

Tax Rate

Net Debt-To-Equity Ratio

Interest Cover

Numerator

Cash Flow From Operations

Capex

Tax Charge

Net Debt = Total Debt – Cash & Equivalents

EBIT

Denominator

Net Income

Depreciation

Pre-Tax Income

Total Equity

Interest Expense

Valuation Toolkit

Price / Earnings Ratio

Price / Book Value

Dividend Yield

Free Cash Flow Yield

Enterprise Value / Sales

Numerator

Current Share Price

Current Share Price

Annualised Declared Cash Dividend

Cash Flow From Operations – Total Capex

EV = Current Share Price × Current Shares + Minority Equity + Net Debt +

Other LT Liabilities

Enterprise Value

Denominator

Diluted Earnings Per Share (Basis As Specified)

Shareholders' Equity / Current Basic Shares

Current Share Price

Market Cap = Current Share Price × Current Basic Shares

Sales

Basic EBIT + Depreciation + Amortization

iQmethodSM is the set of BofA Global Research standard measures that serve to maintain global consistency under three broad headings: Business Performance, Quality of Earnings, and valuations. The key features of iQmethod are: A consistently structured, detailed, and transparent methodology. Guidelines to maximize the effectiveness of the comparative valuation process, and to identify some common pitfalls.

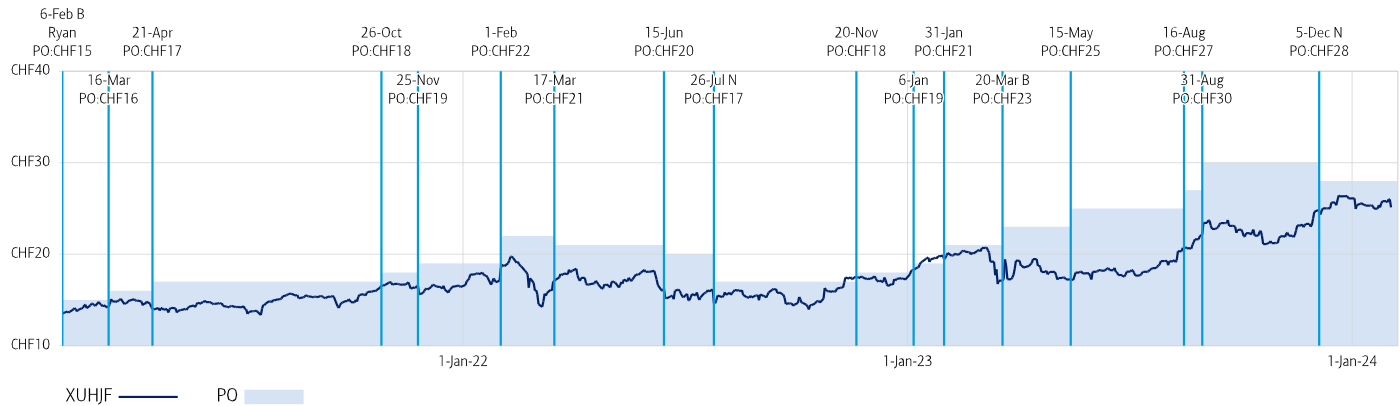
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Disclosures

Important Disclosures

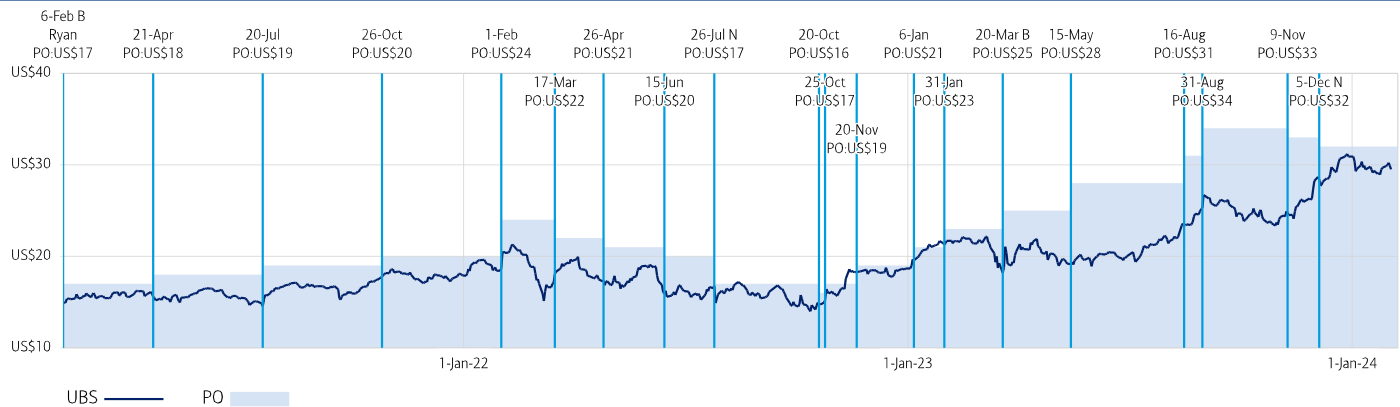
UBS (XUHF) Price Chart



B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

The Investment Opinion System is contained at the end of the report under the heading "Fundamental Equity Opinion Key". Dark grey shading indicates the security is restricted with the opinion suspended. Medium grey shading indicates the security is under review with the opinion withdrawn. Light grey shading indicates the security is not covered. Chart is current as of a date no more than one trading day prior to the date of the report.

UBS (UBS) Price Chart



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Equity Investment Rating Distribution: Banks Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	100	49.75%	Buy	84	84.00%
Hold	54	26.87%	Hold	41	75.93%
Sell	47	23.38%	Sell	35	74.47%

Equity Investment Rating Distribution: Global Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	1895	53.62%	Buy	1083	57.15%
Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

^{R1} Issuers that were investment banking clients of BofA Securities or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.

FUNDAMENTAL EQUITY OPINION KEY: Opinions include a Volatility Risk Rating, an Investment Rating and an Income Rating. **VOLATILITY RISK RATINGS**, indicators of potential price fluctuation, are: A - Low, B - Medium and C - High. **INVESTMENT RATINGS** reflect the analyst's assessment of both a stock's absolute total return potential as well as its attractiveness for investment relative to other stocks within its Coverage Cluster (defined below). Our investment ratings are: 1 - Buy stocks are expected to have a total return of at least 10% and are the most attractive stocks in the coverage cluster; 2 - Neutral stocks are expected to remain flat or increase in value and are less attractive than Buy rated stocks and 3 - Underperform stocks are the least attractive stocks in a coverage cluster. An investment rating of 6 (No Rating) indicates that a stock is no longer trading on the basis of fundamentals. Analysts assign investment ratings considering, among other things, the 0-12 month total return expectation for a stock and the firm's guidelines for ratings dispersions (shown in the table below). The current price objective for a stock should be referenced to better understand the total return expectation at any given time. The price objective reflects the analyst's view of the potential price appreciation (depreciation).

Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster ^{R2}
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

^{R2}Ratings dispersions may vary from time to time where BofA Global Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

INCOME RATINGS, indicators of potential cash dividends, are: 7 - same/higher (dividend considered to be secure), 8 - same/lower (dividend not considered to be secure) and 9 - pays no cash dividend. **Coverage Cluster** is comprised of stocks covered by a single analyst or two or more analysts sharing a common industry, sector, region or other classification(s). A stock's coverage cluster is included in the most recent BofA Global Research report referencing the stock.

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