

UBS

Similarities and differences

Maintain Rating: NEUTRAL | PO: 28.00 CHF | Price: 25.31 CHF

Better returns, but significantly higher multiples

We see UBS growing EPS to US\$5.25 by 2027E. Compared with its close to US\$30 current share price, the 27E PE is a modest 5.7x. However, our European banks coverage trades on this multiple by 2025E. We see the upcoming dividend and total cash distributions for 2024E 9% points higher for the sector than UBS (Exhibit 1), a gap that widens to 20% points in total return by 2027E (Exhibit 2). And while we do expect UBS to deliver a superior 17% Return on Common Equity Tier 1 at maturity, the sector appears set to deliver a reasonable 13% (Exhibit 3). In short, we believe UBS offers a better long-term picture than European banks, but the relative price looks rich. We maintain our Neutral rating.

Balance sheet rigidities (1)

We think supervisors learned little about deposit outflow risks in 2023 – except for those of wealthy depositors. At Credit Suisse as in the failed US banks, these proved flighty (Exhibit 6). UBS holds exceptional liquidity (Exhibit 7), with US\$364bn in High Quality Liquid Assets; we are not concerned about liquidity. But we do see a significant piece of work ahead in Wealth Management to judge what is the value of this traditionally key product – probably less than was assumed.

Balance sheet rigidities (2)

UBS has a potential US\$43bn surplus of Bail-in debt (Exhibit 9). Over time, this provides P&L upside – the surplus reflects mainly debt issued by Credit Suisse when it expected a much bigger balance sheet than today's (Exhibit 10) and prior supervisory expectations for CS. However, with legal entity mergers not until late 2024E, we believe it may be 2026E before the P&L benefits of reducing this surplus can be realised.

Estimates (Dec) (USD)	2021A	2022A	2023E	2024E	2025E
Net Profit (US\$m)	7,457	7,630	31,475	2,694	9,020
EPS (Adjusted Diluted)	2.10	2.27	0.78	0.82	2.85
Dividend / Share	0.50	0.55	0.57	0.59	0.66
Adjusted NAV PS	15.3	15.1	23.7	23.4	25.0
EPS (Adjusted Diluted - UBS - US\$)	2.10	2.27	0.78	0.82	2.85
Dividend / Share (UBS - US\$)	0.50	0.55	0.57	0.59	0.66
Valuation (Dec)					
P/E	13.3	12.0	38.5	36.5	10.4
EPS Change (YoY)	28.0%	8.42%	-65.7%	4.51%	249%
Price / BV	1.69x	1.65x	1.15x	1.13x	1.03x
Price / NAV	1.95x	1.97x	1.26x	1.27x	1.19x
Net Yield	1.68%	1.85%	1.92%	1.98%	2.22%
DPS Change (YoY)	35.1%	10.0%	3.64%	3.51%	11.9%
Price / GOP	11.3x	10.4x	2.85x	19.8x	7.43x

15 January 2024

Equity

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Stock Data

Price (SWX / NYS)	25.31 CHF / 29.80 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)	94,938 CHF
Shares Outstanding (mn)	3,751.0 / 3,751.0
Average Daily Value (mn)	228.56 USD
Free Float	84.0%
BofA Ticker / Exchange	XUHFJ / SWX
BofA Ticker / Exchange	UBS / NYS
Bloomberg / Reuters	UBSG SW / UBSG.S
ROE (2023E)	44.4%
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 10 to 13. Analyst Certification on page 8. Price Objective Basis/Risk on page 8.

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Timestamp: 14 January 2024 07:33PM EST

iQprofileSM UBS

Key Income Statement Data (Dec)	2021A	2022A	2023E	2024E	2025E
(US\$ Millions)	IFRS	IFRS	IFRS	IFRS	IFRS
Net Interest Income	6,705	6,621	7,728	13,648	14,184
Net Fee Income	22,387	18,966	21,700	24,304	25,276
Securities Gains / (Losses)	5,850	7,517	11,500	7,000	7,000
Other Income	452	1,459	29,333	2,500	2,364
Total Non-Interest Income	28,689	27,942	62,533	33,804	34,641
Total Operating Income	35,394	34,563	70,261	47,452	48,824
Operating Expenses	(26,058)	(24,930)	(36,134)	(42,490)	(36,155)
Pre-Provision Profit	9,336	9,633	34,127	4,962	12,670
Provisions Expense	148	(29.0)	(1,047)	(300)	(300)
Operating Profit	9,484	9,604	33,080	4,662	12,370
Non-Operating Items	0	0	0	0	0
Pre-Tax Income	9,484	9,604	33,080	4,662	12,370
Net Income to sh/holders	7,457	7,630	31,475	2,694	9,020
Adjusted Cash Earnings	7,457	7,630	2,550	2,694	9,020

Key Balance Sheet Data

Total Assets	1,117,181	1,104,363	1,644,523	1,557,512	1,509,910
Average Interest Earning Assets	564,169	573,622	721,967	880,708	867,952
Weighted Risk Assets	302,200	319,500	544,765	517,645	511,362
Total Gross Customer Loans	398,423	387,920	625,657	625,729	650,796
Total Customer Deposits	542,007	525,051	733,071	733,071	769,725
Tier 1 Capital	58,942	59,672	92,282	96,072	97,867
Tangible Equity	54,284	50,609	77,394	77,184	79,224
Common Shareholders' Equity	60,662	56,876	84,856	84,646	86,686

Key Metrics

Net Interest Margin	1.19%	1.15%	1.07%	1.55%	1.63%
Tier 1 Ratio	19.5%	18.7%	16.9%	18.6%	19.1%
Core Tier 1 Ratio	15.0%	14.2%	14.3%	15.0%	14.8%
Basel 3 "fully phased in" Tier 1 Ratio	15.0%	14.2%	14.3%	15.0%	14.8%
Effective Tax Rate	21.1%	20.2%	4.82%	42.0%	27.0%
Loan / Assets Ratio	35.6%	35.1%	38.0%	40.1%	43.0%
Loan / Deposit Ratio	73.4%	73.7%	85.2%	85.2%	84.4%
Oper Leverage (Inc Growth - Cost Growth)	-0.86%	1.98%	58.3%	-50.1%	17.8%
Gearing (Assets / Equity)	18.4x	19.4x	19.4x	18.4x	17.4x
Tangible Equity / Assets	4.86%	4.58%	4.71%	4.96%	5.25%
Tangible Equity / WRAs	18.0%	15.8%	14.2%	14.9%	15.5%

Business Performance

Revenue Growth	6.98%	-2.35%	103%	-32.5%	2.89%
Operating Expense Growth	7.84%	-4.33%	44.9%	17.6%	-14.9%
Provisions Expense Growth	-121%	-120%	3,510%	-71.3%	0%
Operating Revenue / Average Assets	0.85%	0.86%	2.41%	0.29%	0.81%
Operating Expenses / Average Assets	-2.32%	-2.24%	-2.63%	-2.65%	-2.36%
Pre-Provision ROA	0.83%	0.87%	2.48%	0.31%	0.83%
ROA	0.66%	0.69%	2.29%	0.17%	0.59%
Pre-Provision ROE	15.5%	16.4%	48.2%	5.86%	14.8%
ROE	12.4%	13.0%	44.4%	3.18%	10.5%
RoTE	13.9%	14.5%	3.99%	3.49%	11.5%
RoWRAs	2.52%	2.45%	0.59%	0.51%	1.75%
Dividend Payout Ratio	23.5%	23.8%	71.9%	71.2%	22.8%
Efficiency Ratio (Cost / Income Ratio)	73.6%	72.1%	51.4%	89.5%	74.1%

Quality of Earnings

Total Non-Interest Inc / Operating Inc	81.1%	80.8%	89.0%	71.2%	70.9%
Market-Related Revenue / Total Revenues	26.7%	25.2%	12.2%	21.5%	21.5%
Provisioning Burden as % of PPP	-1.59%	0.30%	3.07%	6.05%	2.37%
NPLs plus Foreclosed Real Estate / Loans	0.66%	0.75%	0.51%	0.56%	0.59%
Loan Loss Reserves / NPLs	0%	0%	0%	0%	0%
Loan Loss Reserves / Total Loans	0.17%	0.18%	0.12%	0.13%	0.14%
Provisions Expense / Average Loans	-0.04%	0.01%	0.21%	0.05%	0.05%

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

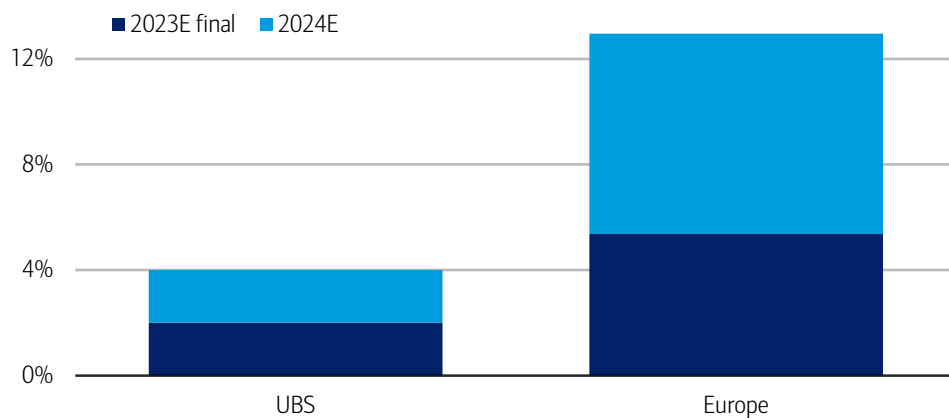
Stock Data

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

Key charts

Exhibit 1: dividend yield 900bp higher to spring 2025E at European banks

UBS and the banks, dividends 2023E final and 2024E (% market cap)

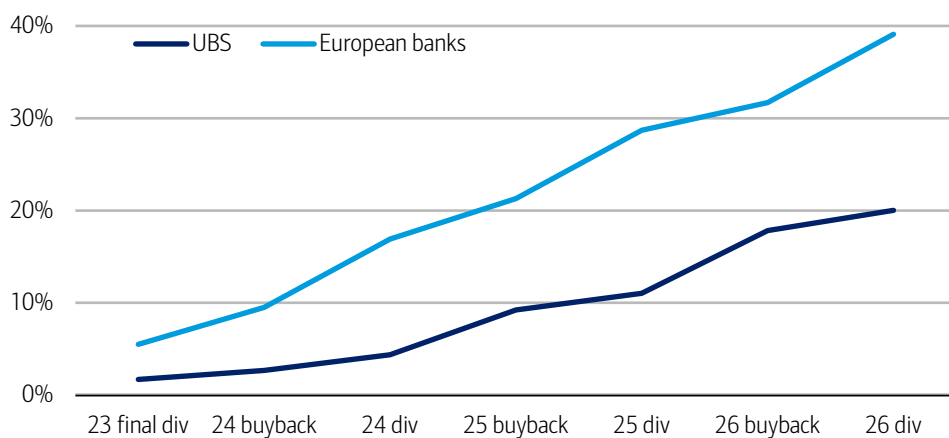


Source: BofA Global Research estimates

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Exhibit 2: European banks set to distribute 20% points more than UBS over 2024-26E

Shareholder distributions, % market cap 2024-26E

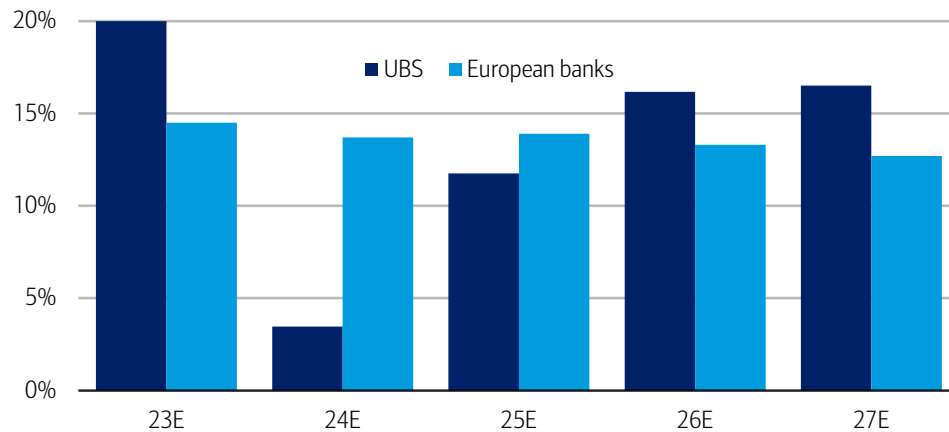


Source: BofA Global Research estimates

BofA GLOBAL RESEARCH

Exhibit 3: UBS is set to be more profitable than European banks, but not in a different league

Return on Common Equity Tier 1 (%) 2023-27E



Source: BofA Global Research estimates. UBS 2023E reported >40% including badwill, <10% ex badwill and net of restructuring charges

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Box 1

These developments were due to CS clients, mainly in its Wealth Management Division, withdrawing significant amounts following negative market rumours about the financial health of the bank

Financial Stability Board 2023

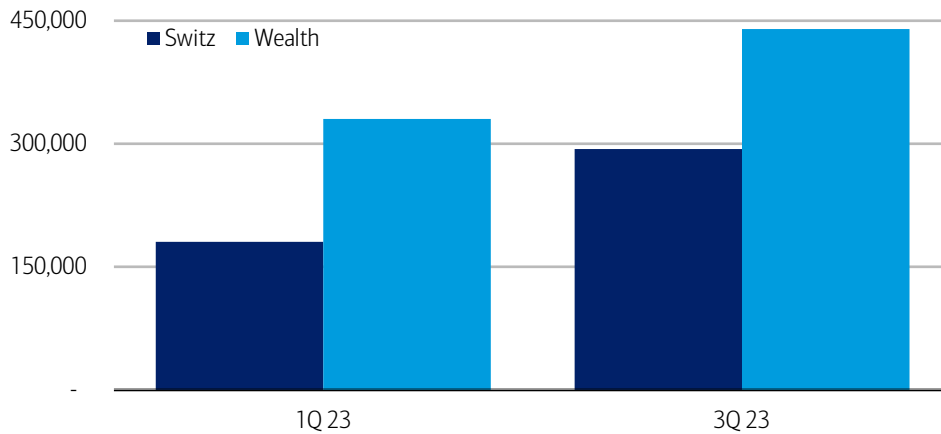
Box 2

the scaled outflow rate for CS during the days ahead of its rescue would be significantly higher than the 90-day outflow rate included above based on publicly available data; in mid-March 2023, at a legal entity level, the deposit outflows equalled the HQLA needed to meet the LCR requirement within a mere 10 business days around the time of the takeover of CS by UBS

Bank for International Settlements 2023

Exhibit 4: UBS wealth and Swiss deposit base up 44% with Credit Suisse, Wealth is 60% of total

UBS deposits by division, 2023 (US\$ mn)



Source: BofA Global Research estimates, company report

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Exhibit 5: UBS deposits and 30 day outflow assumptions 3Q 23 (US\$ mn)

US\$612bn deposits, 26% aggregate outflow assumption

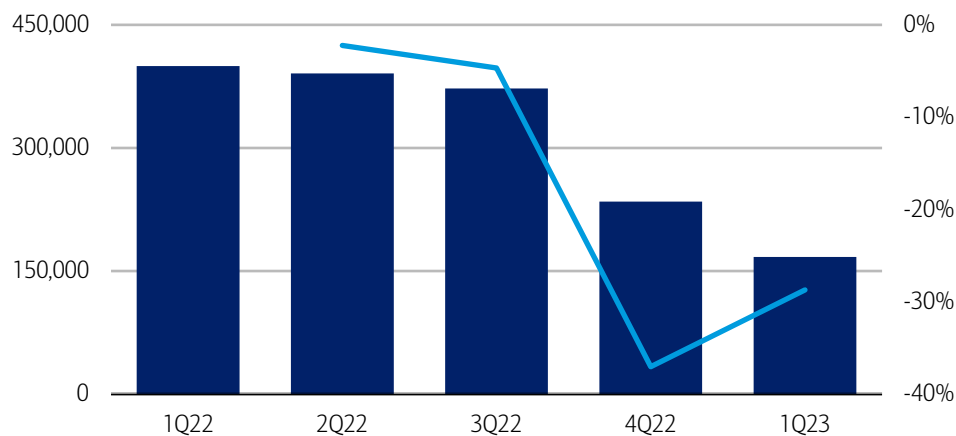
	Value	Outflow	%
Retail: stable	35.2	1.2	3%
Retail: other	315.7	38.6	12%
Corporate: operational	73.4	18.2	25%
Corporate: non-operational	187.7	102.1	54%
Total	612.0	160.1	26%

Source: company

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Exhibit 6: Credit Suisse deposits fell by 55% over two quarters, 2022-23 (CHF mn)

Credit Suisse deposits and quarterly change (CHF mn, %)



Source: BofA Global Research estimates, company report

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Exhibit 7: UBS built a very high Liquidity Coverage Ratio

UBS LCR and components, 2Q 22 and 3Q 23 (US\$ bn, %)

	2Q 22	3Q 23
Cash	169	264
Securities	80	103
HQLA	249	368

Exhibit 7: UBS built a very high Liquidity Coverage Ratio

UBS LCR and components, 2Q 22 and 3Q 23 (US\$ bn, %)

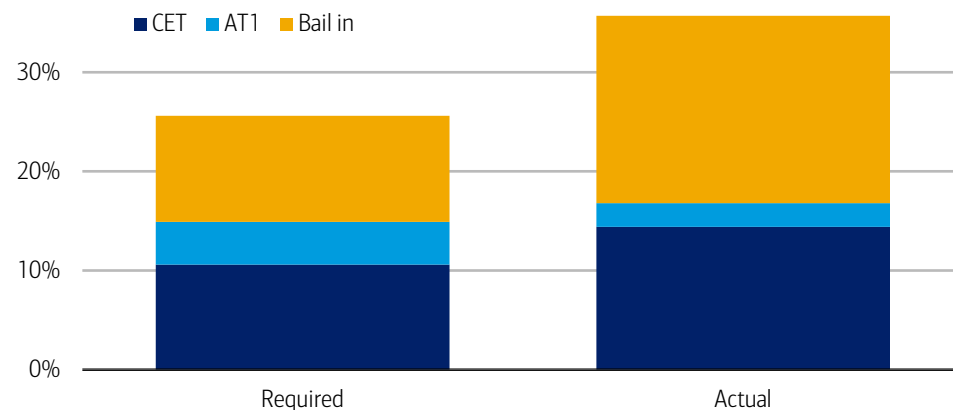
	2Q 22	3Q 23
Deposits	531	612
HQLA/deposits	47%	60%
LCR	161%	197%

Source: company

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Exhibit 8: UBS has a 1.9% Tier 1 surplus but a 8.2% Bail in debt surplus

UBS going and gone-concern capital ratios (% Risk Weighted Assets) 3Q 23



Source: company

BofA GLOBAL RESEARCH

Exhibit 9: UBS consolidated and standalone Bail-in debt (US\$ bn): surplus at group, much smaller at entities

UBS Bail-in (Gone concern) debt, 3Q 23 (US\$ bn)

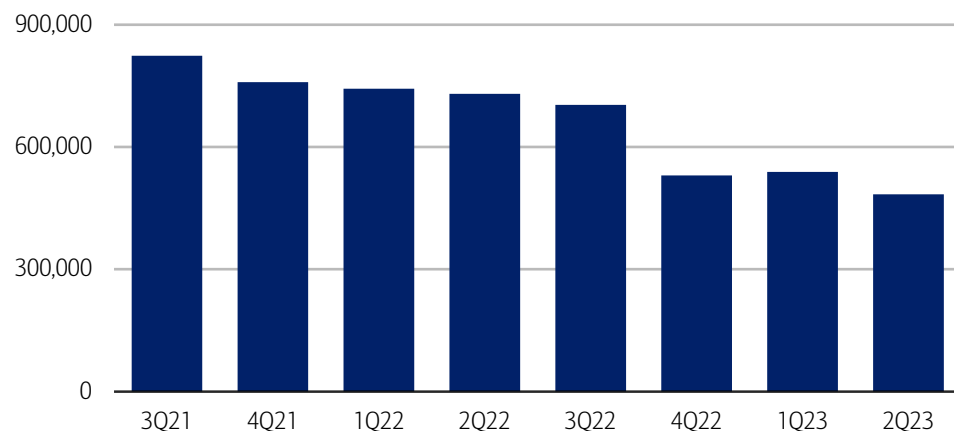
	Required	Eligible	Buffer
UBS consolidated	60.6	103.4	42.8
UBS AG	46.1	53.3	7.2
Credit Suisse AG	27.7	39.2	11.5

Source: company

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Exhibit 10: Credit Suisse total assets fell by 41% over 2021-23

Credit Suisse total assets (CHF mn) 2021-23



Source: BofA Global Research estimates, company report

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Valuation

We value UBS using a Gordon growth model, shown in

Exhibit 11: Gordon growth model 2026E

A superior return on capital

2026E

Net profit	12,531
Tangible NAV	82,877
ROE	15%
COE	10%
G	3%
P/NAV	1.7
NAV per share	23.9
Implied value	39.7
Discounted to today	32
US\$/CHF	0.9
Price Objective	28
Note: CET1	79,305
% TNAV	96%
RO CET1	16%

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
	Lloyds Banking Group	LLDTF	LLOY LN	Rohith Chandra-Rajan
	Lloyds Banking Group	LYG	LYG US	Rohith Chandra-Rajan
	NatWest Group	RBSPF	NWVG LN	Rohith Chandra-Rajan
	Natwest Group PLc	NWG	NWVG 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	UNCF	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

EMEA - Banks Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
	BBVA	BBVXF	BBVA SQ	Antonio Reale
	Commerzbank	CRZBF	CBK GY	Rohith Chandra-Rajan
	Handelsbanken	SVNLF	SHBA SS	Tarik El Mejjad
	ING Groep NV	ING	ING US	Tarik El Mejjad
	ING Groep NV	INGVF	INGA NA	Tarik El Mejjad
	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
	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.

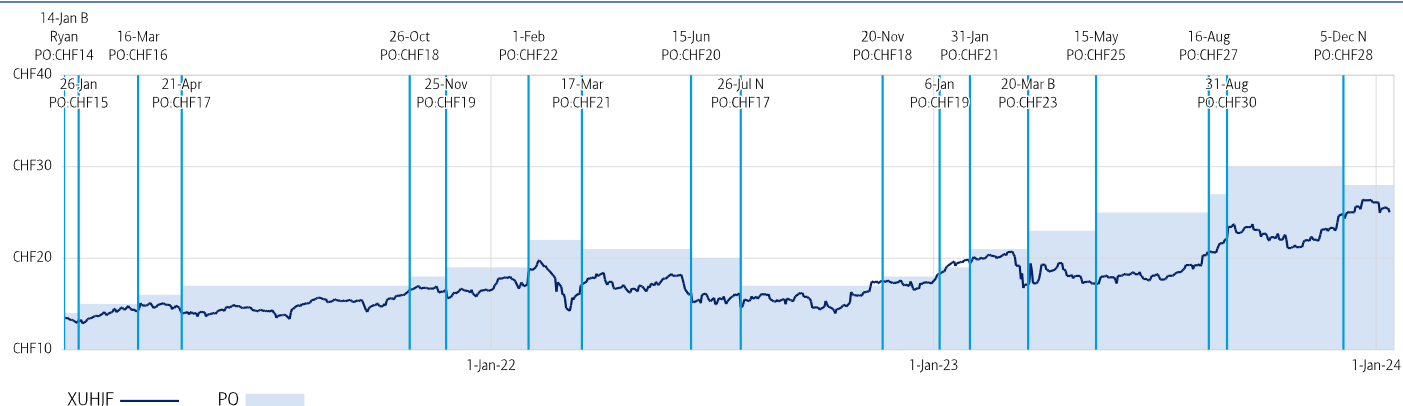
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Disclosures

Important Disclosures

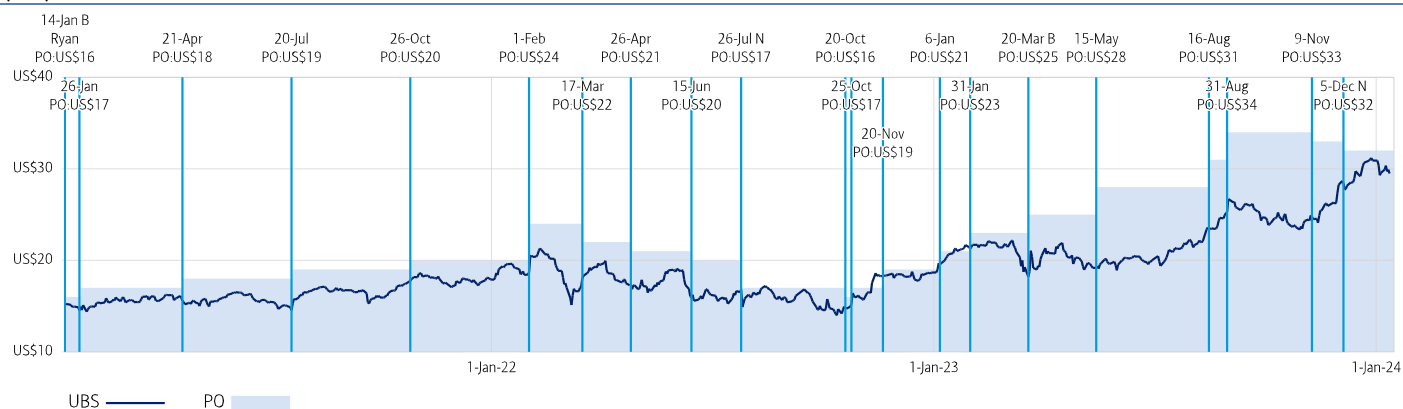
UBS (XUHF) Price Chart



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



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

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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.

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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.

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