

UBS

# New goals ambitious, by 2028. A longer path there

Maintain Rating: NEUTRAL | PO: 28.00 CHF | Price: 25.70 CHF

## New goals ambitious, further out

A new 2028 18% Return on Common Equity Tier 1 goal is set, comparing with or 17% 2027. Ambitions in 2025 for a mid-to-high single digit compares with consensus 11%. Cost reductions are lifted from above US\$10bn to US\$13bn, but the 15% exit 2026 RoCET1 is maintained, implying a lower revenue expectation at that point. Net New Money, including dividends and interest, is targeted for US\$100bn per annum in 2024-25, below consensus US\$132-141bn, but 2026 and beyond targeted at US\$200bn, above consensus US\$149bn.

## Distributions: higher dividend, in line buybacks

A 2023 dividend of US\$0.70 is above our US\$0.57 and represents a US\$2.3bn capital distribution. UBS recommits to a progressive policy from this higher base. A US\$1bn 2024 buyback is in line with our expectations, while the ambition for 2026 above that of 2022's US\$5.5bn compares with our expected US\$7bn.

## Quarter mixed

Underlying revenues 4Q 23 US\$10.4bn, in line with consensus, costs US\$9.7bn modestly above US\$9.5bn consensus. Non recurrent revenues and expenses drove a loss of US\$0.8bn, well below consensus of breakeven, but then a tax recovery took net loss to US\$0.3bn, in line with consensus.

## Maintain Neutral

We believe the finished UBS is an attractive business, with the ability to grow faster than European banking at a higher Return on Equity. However, these results emphasise the work to be done to get there, as discussed in [UBS: Similarities and differences 15 January 2024](#) (report link) and the complex 2024-25E ahead. We maintain our Neutral rating.

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	13.5	12.2	39.1	36.2	10.3
EPS Change (YoY)	28.0%	8.42%	-65.7%	4.51%	249%
Price / BV	1.68x	1.64x	1.14x	1.12x	1.02x
Price / NAV	1.93x	1.96x	1.25x	1.26x	1.18x
Net Yield	1.70%	1.87%	1.93%	2.00%	2.24%
DPS Change (YoY)	35.1%	10.0%	3.64%	3.51%	11.9%
Price / GOP	11.2x	10.3x	2.82x	19.6x	7.37x

06 February 2024

### Equity

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### Stock Data

Price (SWX / NYS)	25.70 CHF / 29.79 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)	96,401 CHF
Shares Outstanding (mn)	3,751.0 / 3,751.0
Average Daily Value (mn)	159.77 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 6 to 9. Analyst Certification on page 4. Price Objective Basis/Risk on page 4.**

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Timestamp: 06 February 2024 01:21AM EST

# iQprofile<sup>SM</sup> UBS

Key Income Statement Data (Dec)	2021A	2022A	2023E	2024E	2025E
(US\$ Millions)	IFRS	IFRS	IFRS	IFRS	IFRS
<b>Net Interest Income</b>	<b>6,705</b>	<b>6,621</b>	<b>7,728</b>	<b>13,648</b>	<b>14,184</b>
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
<b>Total Non-Interest Income</b>	<b>28,689</b>	<b>27,942</b>	<b>62,533</b>	<b>33,804</b>	<b>34,641</b>
<b>Total Operating Income</b>	<b>35,394</b>	<b>34,563</b>	<b>70,261</b>	<b>47,452</b>	<b>48,824</b>
Operating Expenses	(26,058)	(24,930)	(36,134)	(42,490)	(36,155)
<b>Pre-Provision Profit</b>	<b>9,336</b>	<b>9,633</b>	<b>34,127</b>	<b>4,962</b>	<b>12,670</b>
Provisions Expense	148	(29.0)	(1,047)	(300)	(300)
<b>Operating Profit</b>	<b>9,484</b>	<b>9,604</b>	<b>33,080</b>	<b>4,662</b>	<b>12,370</b>
Non-Operating Items	0	0	0	0	0
<b>Pre-Tax Income</b>	<b>9,484</b>	<b>9,604</b>	<b>33,080</b>	<b>4,662</b>	<b>12,370</b>
Net Income to sh/holders	7,457	7,630	31,475	2,694	9,020
<b>Adjusted Cash Earnings</b>	<b>7,457</b>	<b>7,630</b>	<b>2,550</b>	<b>2,694</b>	<b>9,020</b>

## 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
<b>Weighted Risk Assets</b>	<b>302,200</b>	<b>319,500</b>	<b>544,765</b>	<b>517,645</b>	<b>511,362</b>
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
<b>Tier 1 Capital</b>	<b>58,942</b>	<b>59,672</b>	<b>92,282</b>	<b>96,072</b>	<b>97,867</b>
Tangible Equity	54,284	50,609	77,394	77,184	79,224
<b>Common Shareholders' Equity</b>	<b>60,662</b>	<b>56,876</b>	<b>84,856</b>	<b>84,646</b>	<b>86,686</b>

## Key Metrics

Net Interest Margin	1.19%	1.15%	1.07%	1.55%	1.63%
<b>Tier 1 Ratio</b>	<b>19.5%</b>	<b>18.7%</b>	<b>16.9%</b>	<b>18.6%</b>	<b>19.1%</b>
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%
<b>Loan / Assets Ratio</b>	<b>35.6%</b>	<b>35.1%</b>	<b>38.0%</b>	<b>40.1%</b>	<b>43.0%</b>
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%
<b>Pre-Provision ROA</b>	<b>0.83%</b>	<b>0.87%</b>	<b>2.48%</b>	<b>0.31%</b>	<b>0.83%</b>
ROA	0.66%	0.69%	2.29%	0.17%	0.59%
<b>Pre-Provision ROE</b>	<b>15.5%</b>	<b>16.4%</b>	<b>48.2%</b>	<b>5.86%</b>	<b>14.8%</b>
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%
<b>Efficiency Ratio (Cost / Income Ratio)</b>	<b>73.6%</b>	<b>72.1%</b>	<b>51.4%</b>	<b>89.5%</b>	<b>74.1%</b>

## Quality of Earnings

<b>Total Non-Interest Inc / Operating Inc</b>	<b>81.1%</b>	<b>80.8%</b>	<b>89.0%</b>	<b>71.2%</b>	<b>70.9%</b>
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%
<b>Loan Loss Reserves / NPLs</b>	<b>0%</b>	<b>0%</b>	<b>0%</b>	<b>0%</b>	<b>0%</b>
Loan Loss Reserves / Total Loans	0.17%	0.18%	0.12%	0.13%	0.14%
<b>Provisions Expense / Average Loans</b>	<b>-0.04%</b>	<b>0.01%</b>	<b>0.21%</b>	<b>0.05%</b>	<b>0.05%</b>

## 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



## 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
<b>BUY</b>				
	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
<b>NEUTRAL</b>				
	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

iQmethod<sup>SM</sup> 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 &amp; 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

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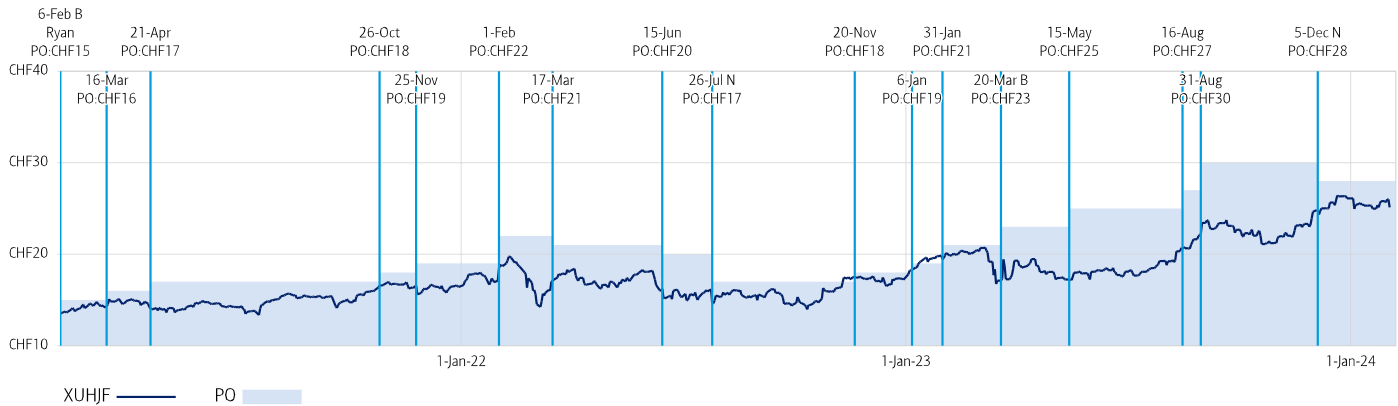
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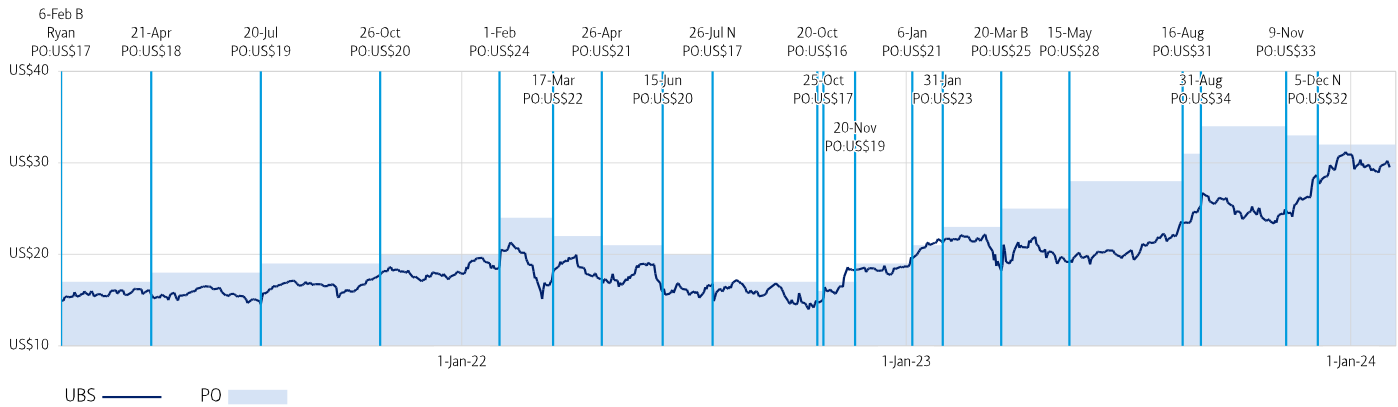
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### UBS (XUHFJF) Price Chart



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



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.

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

Coverage Universe	Count	Percent	Inv. Banking Relationships <sup>R1</sup>	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 <sup>R1</sup>	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%

<sup>R1</sup> 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 <sup>R2</sup>
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

<sup>R2</sup>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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