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## UBS Takes Brave Step, But Complete Breakup Still Makes Sense Say Analysts

**Tom Burroughes**

Deputy Editor in London

Yesterday's move by **UBS** to split apart its wealth, asset management and investment banking arms and thereby revive the fortunes of each after the mauling inflicted by the credit crunch drew a lukewarm welcome from analysts contacted by WealthBriefing. Some commentators went as far as to say that the troubled Swiss financial empire should be broken up.

Zurich-listed UBS yesterday announced it would turn the three parts of its business into autonomous units, while rejecting the idea that it intended to sell some units off.

By changing its structure, UBS hopes to repair the collateral damage that its still-profitable wealth management unit has suffered to its image as a result of the massive losses at its sister investment bank – \$43 billion in total, analysts told *WealthBriefing*. But some commentators reckon that UBS should be brave and turn its segments into totally separate businesses.

"If they want to preserve the value of their [wealth] business, they should go the whole hog. What they have done looks a bit of a compromise. If they take the decisive step and split the businesses entirely, they could go on and rebuild their credibility," Michael Maslinski, founder of the eponymous consultancy firm, Maslinski & Co, said.

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Ray Soudah, founder of wealth management merger and acquisition consultancy MillenniumAssociates, agreed with Mr Maslinski's diagnosis, saying that a complete break-up into separate businesses was the logical end-point for UBS.

"If a bank has in effect a multiple of price-earnings ratios in its stock price, that is probably the biggest driving force to split them up and achieve a true valuation of the different divisions," Mr Soudah said.

According to a recent research note by Morgan Stanley, UBS is forecast, based on expected earnings for 2009, to have an price-earnings ratio of 8.1 times, based on an earnings per share forecast of SFr2.88 per share. By contrast, Credit Suisse, Switzerland's second-largest bank behind UBS with a significant wealth management business, has a forecast EPS of SFr6.2 but the same P/E ratio for 2009 of 8.1, according to Morgan Stanley. Even in the face of its current woes UBS looks relatively more expensive than its peer.

So Mr Soudah thinks it would be wise for UBS to de-merge to make it easier for investors to figure out what the underlying value of UBS's component businesses are really worth.

"This bank, and perhaps some others, has finally understood and accepted that they have been suffering from a shareholder and client damaging conglomerate discount," Mr Soudah said.

"I expect these separate divisions to be separately listed on the stock exchange or merged with other listed similar business line entities. Until they are absolutely separated, the client comfort will not be there. The real way is to separate the legal entities and list them separately to reflect the different risks, valuations and remove transferability of capital," he added.