



Axis Capital (AXS)

Updated July 27th, 2018 by Josh Arnold

Key Metrics

Current Price: \$57	5 Year CAGR Estimate: 4.1%	Volatility Percentile: 18.1%
Fair Value Price: \$48	5 Year Growth Estimate: 4.9%	Momentum Percentile: 18.4%
% Fair Value: 120%	5 Year Valuation Multiple Estimate: -3.5%	Valuation Percentile: 31.1%
Dividend Yield: 2.7%	5 Year Price Target \$61	Total Return Percentile: 23.7%

Overview & Current Events

Axis Capital is a global insurer and reinsurer that was founded in 2001. It is split into Insurance and Reinsurance divisions, with the former making up about 55% of total revenue. The company offers a broad range of risk transfer products for a diverse base of customers and sports a market cap of \$4.8 billion with \$4.8 billion in annual revenue.

Axis reported Q2 earnings on 7/25/18 and results were mixed. Revenue was up almost 5% but operating income fell slightly. The company's combined ratio improved 450bps to 93.1% driven by lower catastrophe and weather-related losses, as well as lower accident losses. The core insurance business continues to see stronger results while the reinsurance business has been stable. Last year, Axis' results were negatively impacted by several large weather events that shouldn't reoccur. Thus, profitability continues to improve. In addition, it is working through some efficiency measure that should allow it to improve operating margins moving forward.

Growth on a Per-Share Basis

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2023
EPS	\$2.26	\$5.10	\$4.60	-\$0.90	\$3.41	\$5.49	\$5.32	\$4.02	\$4.48	-\$3.15	\$4.70	\$6.00
DPS	\$0.76	\$0.81	\$0.86	\$0.93	\$0.97	\$1.02	\$1.10	\$1.22	\$1.43	\$1.53	\$1.56	\$2.00

Earnings-per-share have been tremendously volatile for the past decade, which is certainly expected for an insurer. Axis' profits rise and fall based upon how efficiently it writes premiums and factors that are out of its control, including claims. Axis has suffered of late due to higher claims from disasters, but this certainly shouldn't be the norm. Axis also benefits from higher rates as its investment income rises commensurately. We see moderate growth going forward as Axis continues to grow its business organically through prudent risk taking in addition to further acquisitions like Novae. We are expecting 4.9% earnings-per-share growth going forward through a combination of continued premium growth, investment income and buybacks. There is potential room for additional upside should Axis avoid years like 2017 in the future or if it completes a sizable acquisition but overall, Axis looks well positioned, with Q2 reinforcing its position.

We see the dividend growing at about the same rate as earnings and should reach \$2 or so in the next five years.

Valuation Analysis

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	Now	2023
Avg. P/B	112%	71%	73%	85%	78%	95%	90%	99%	94%	113%	109%	91%
Avg. Yld.	2.3%	3.0%	2.7%	2.9%	2.9%	2.3%	2.4%	2.3%	2.6%	2.5%	2.7%	3.3%

The company's price-to-book ratio has moved around significantly as its fortunes have risen and fallen, similar to other companies' valuations. Right now, Axis is enjoying a price-to-book ratio that is well above average and as a result, we see it as overvalued. A recent rally has taken shares from being fairly valued to just about as expensive as they've been in the past decade. We therefore see a pretty meaningful 3.5% headwind to total returns from the valuation going forward as the price-to-book ratio moves back in line with its historical averages nearer to 90%.

As a result of a declining valuation, we see the dividend payment growing as a percentage of the share price, increasing from the current 2.7% to 3.3%. That yield would be a new high for Axis but given that its dividend is far more mature

Disclosure: This analyst has no position in the security discussed in this article, and no plans to initiate one in the next 72 hours.

than it was several years ago, that is not entirely unexpected. The bottom line is that we expect Axis to remain a strong income stock but given the current overvaluation, there will likely be a better entry point in the future.

Safety, Quality, Competitive Advantage, & Recession Resiliency

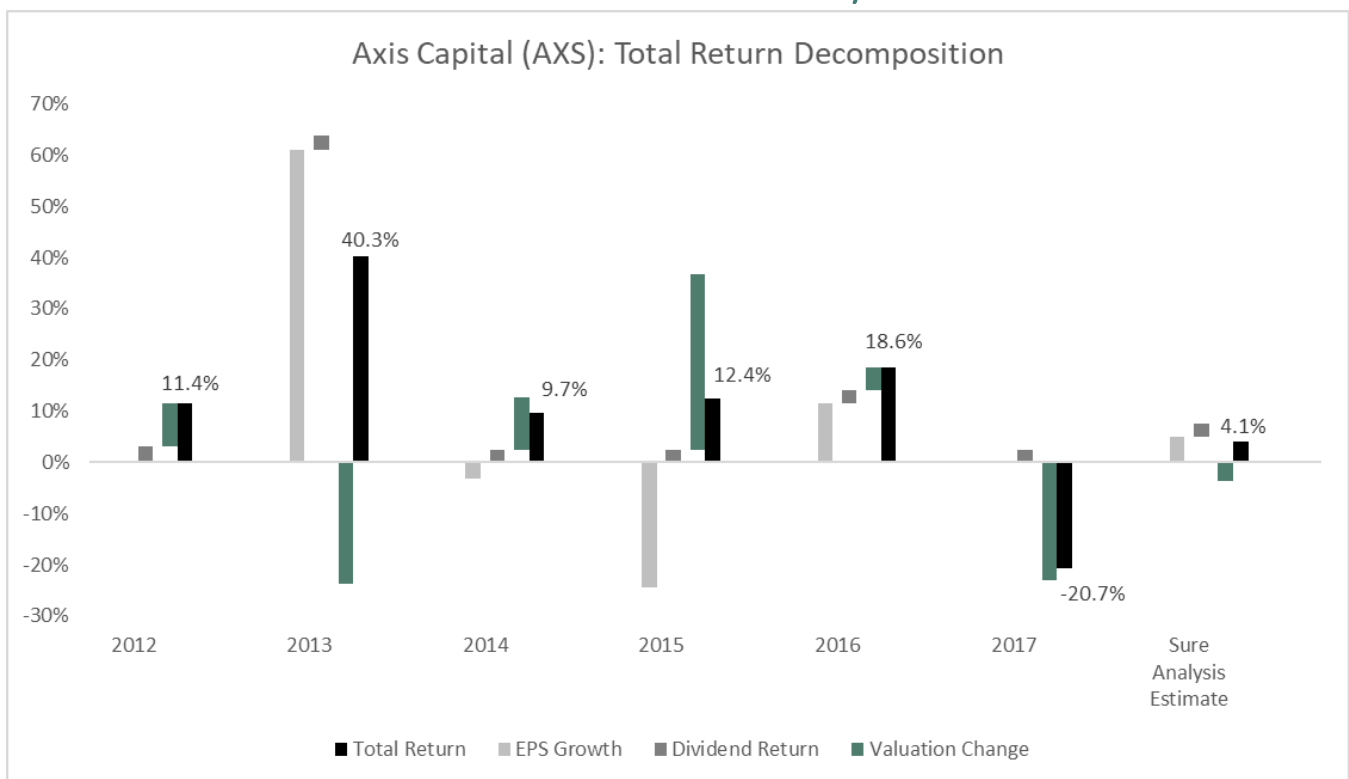
Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2023
Net L/E	64%	51%	57%	81%	61%	58%	57%	59%	60%	79%	57%	58%
Debt/A	69%	64%	66%	69%	69%	70%	71%	71%	70%	78%	76%	75%
Int. Cov.	13.9	17.9	17.0	2.0	9.9	12.9	12.1	13.6	11.2	-5.7	11.0	13.0
Payout	34%	16%	19%	N/A	28%	19%	21%	30%	32%	N/A	33%	33%
Std. Dev.	38.7%	37.1%	13.6%	29.0%	13.0%	17.3%	13.5%	12.1%	13.8%	14.7%	15.0%	20.0%

Axis’ quality metrics have actually been fairly stable throughout the past decade despite the fact that its earnings have experienced significant volatility. Its net loss and expenses ratio – which would equate to something akin to cost of goods – has spent the good years in the 60% range while worse years are closer to 80%. Last year was one of those years at 79% but we expect Axis to get back to the area of 60% in the coming years, which will go a long way towards boosting profitability over 2017. Its asset base is roughly three-quarters financed with debt and we don’t see meaningful movement there barring a wholesale change in strategy, which seems unlikely. Axis struggles to cover interest in down years but reserves are more than capable of absorbing those impacts and the payout ratio is very reasonable at 33%. Competitive advantages are tough to come by for insurers but Axis’ management has proven adept at acquiring portfolios that suit its model and its underwriting is sound and profitable, barring catastrophes. It is also somewhat agnostic to economic conditions, which makes it a stable performer in recessions.

Final Thoughts & Recommendation

We see Axis as overvalued and offering investors total annual returns of 4.3% in the coming years. Axis’ earnings-per-share growth of 4.9% will largely be offset by a 3.5% decline in the valuation, so the bulk of its returns will result from the 2.7% yield. Axis simply does not offer high enough total returns to make it an attractive investment at current prices. Investors should wait for a significant decline in this insurer’s price-to-book ratio before buying in.

Total Return Breakdown by Year



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