Chubb Ltd. (CB)

Updated September 5th, 2018 by Nick McCullum

Key Metrics

Current Price:	$137	**5 Year CAGR Estimate:**	8.3%	**Volatility Percentile:**	4.1%
Fair Value Price:	$125	**5 Year Growth Estimate:**	8.0%	**Momentum Percentile:**	30.4%
% Fair Value:	110%	**5 Year Valuation Multiple Estimate:**	-1.8%	**Valuation Percentile:**	43.5%
Dividend Yield:	2.1%	**5 Year Price Target**	$183	**Total Return Percentile:**	53.3%

Overview & Current Events

Chubb Ltd is a global provider of insurance and reinsurance services headquartered in Zurich, Switzerland. The company provides insurance services including property & casualty insurance, accident & health insurance, life insurance, and reinsurance. The current version of Chubb was founded in 2016, when Ace Limited acquired the 'old' Chubb and adopted its name. American investors can initiate an ownership position in Chubb through shares listed on the New York Stock Exchange, where they trade with a market capitalization of US$64 billion.

Chubb reported (7/24/18) financial results for the second quarter of fiscal 2018 in late July. In the quarter, the company's most widely-cited profitability metric (core operating income) increased by 6.2%, and 7.2% on a per-share basis. Chubb's stronger per-share performance can be explained by its continuing share repurchase program. Chubb's performance through the first six months of the fiscal year was not as strong. The company's core operating income declined by 0.2% on a six month basis, and its core operating income per share increased by a meager 0.4%. In the three-month reporting period, Chubb's strong performance was driven by its strong insurance underwriting performance. The company operated with a combined ratio of 88.4% in the quarter. Chubb's second quarter earnings release was positively received by the financial markets and shares rose by as much as 4% in the days following the publication of the financial report.

Growth on a Per-Share Basis

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2023
EPS	$7.72	$8.17	$7.79	$6.96	$7.66	$9.34	$9.80	$9.77	$10.11	$8.02	***$10***	***$15***
BVPS	$43.30	$58.44	$68.46	$74.06	$81.50	$85.60	$90.02	$89.77	$103.60	$110.32	***$118***	***$173***
DPS	$1.09	$1.19	$1.30	$1.50	$1.94	$2.14	$2.56	$2.64	$2.72	$2.80	***$3.00***	***$4.10***
Shares	333.65	336.52	335.54	331.02	337.81	336.76	328.66	324.56	465.97	463.83	***460***	***450***

Chubb's earnings-per-share in fiscal 2017 were just 3.9% higher than the equivalent figure in 2008. With that said, we believe that the more important number to pay attention to is the company's book value per share (BVPS) due to the cyclicality of the insurance industry. Chubb has compounded its book value per share at 11.0% per year over the last decade. Looking ahead, we believe that an 8% growth rate in per-share book value is feasible for Chubb moving forward. The company will likely conclude fiscal 2018 with book value per share of around $118. Applying an 8% growth rate to this estimate allows us to calculate our 2023 book value per share estimate of $173. Earnings are expected to be around $10 this year and should grow at a similar rate as book value (in the long run) moving forward.

Valuation Analysis

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	Now	2023
Avg. P/E	7.1	5.7	6.9	9.3	9.5	9.8	10.6	11.2	12.2	17.7	***13.7***	***10.0***
Avg. P/B	1.26	0.80	0.79	0.88	0.92	1.07	1.15	1.22	1.19	1.29	***1.16***	***1.06***
Avg. Yld.	2.0%	2.6%	2.4%	2.3%	2.6%	2.3%	2.5%	2.4%	2.2%	2.0%	***2.1%***	***2.7%***

For the reasons noted above, we believe that analyzing Chubb's valuation using only earnings does not paint the full picture of Chubb's current price. Instead, investors should consider both its earnings and its book value per share. Chubb is currently trading at a price-to-earnings ratio of 13.7 and a price-to-book ratio of 1.16. For context, the company's 10-year average price-to-earnings ratio is 10.0 and its 10-year average price-to-book ratio is 1.06. If Chubb reverts to its 10-year average price-to-book ratio over the next 5 years, this will introduce a 1.8% tailwind to its annualized returns during this time period.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2023
Debt/A	80.0%	74.8%	72.4%	72.1%	70.3%	69.5%	69.9%	71.5%	69.8%	69.4%	***70.0%***	***70.0%***
Int. Cov.	7.8	14.7	17.4	9.2	12.9	16.4	13.5	12.0	9.2	7.1	***8.0***	***8.0***
Payout	14.1%	14.6%	16.7%	21.6%	25.3%	22.9%	26.1%	27.0%	26.9%	34.9%	***30.0%***	***27.3%***
Std. Dev.	33.2%	40.4%	13.9%	21.7%	11.3%	11.3%	11.1%	16.2%	11.5%	11.0%	***13.0%***	***13.0%***

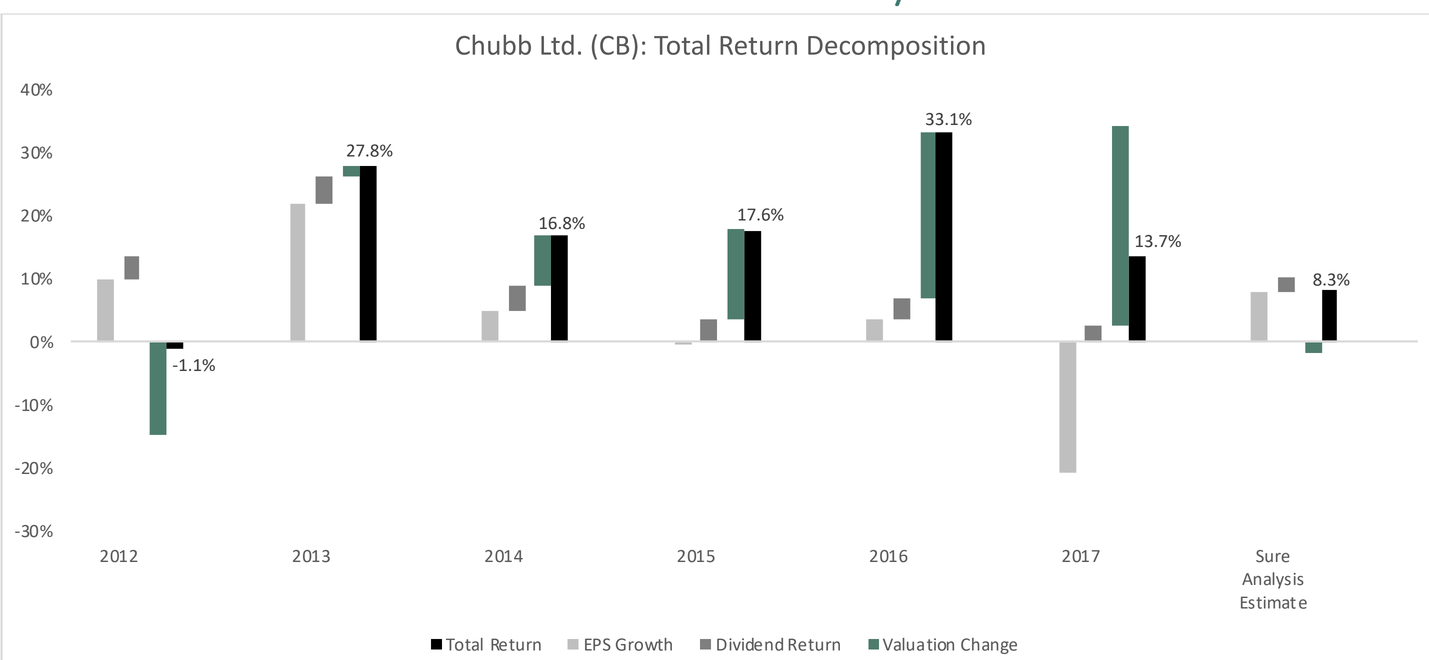
As an insurance company, Chubb does not report gross profits, which explains the lack of our typical gross-profits-to-assets ratio. Its other quality metrics are satisfactory. Most notably, Chubb is on pace to pay out less than one-third of its earnings in fiscal 2018, which gives it plenty of room to continue increasing its dividend in the event that earnings growth stalls temporarily. Separately, Chubb has had one of the lowest stock price standard deviations in our investment universe over the last several years. For these last two reasons, this security may appeal to risk-averse investors who want to simultaneously avoid dividend cuts and minimize the price volatility of their investment portfolios.

Final Thoughts & Recommendation

Chubb is a well-managed insurance company whose historical growth has been superb. Moreover, the company looks positioned to deliver high single-digit total returns from its current price point.

With that said, there are other insurers in our investment universe with higher total returns and more compelling investment theses. At the time of this writing, Aflac comes to mind. Chubb therefore fails to earn a buy recommendation from Sure Dividend at current prices, although this would certainly change if the company's stock price fell considerably from its current level.

Total Return Breakdown by Year



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