



Axis Capital (AXS)

Updated October 26th, 2018 by Josh Arnold

Key Metrics

Current Price:	\$57	5 Year CAGR Estimate:	4.3%	Volatility Percentile:	19.2%
Fair Value Price:	\$48	5 Year Growth Estimate:	5.0%	Momentum Percentile:	55.8%
% Fair Value:	119%	5 Year Valuation Multiple Estimate:	-3.4%	Growth Percentile:	29.7%
Dividend Yield:	2.7%	5 Year Price Target	\$67	Valuation Percentile:	20.8%
Dividend Risk Score:	B	Retirement Suitability Score:	B	Total Return Percentile:	14.8%

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. It offers a broad range of risk transfer products for a diverse base of customers and sports a market capitalization of \$4.8 billion with \$4.6 billion in annual revenue.

Axis reported Q3 earnings on 10/24/18 and results were well received by investors. Total revenue was up 39% as gross premiums increased due to the Novae acquisition, with particular strength in the insurance segment. Losses improved tremendously in Q3 as Axis was not liable for disaster-related losses from weather catastrophes on the same scale it was last year. Indeed, underwriting loss was \$288 million in last year's Q3 but was just \$12 million in this year's Q3. In all, earnings-per-share came in at 52 cents against a loss of \$5.61 in the year-ago quarter. Book value fell slightly to \$53 per share due to unrealized investment losses. We've left our estimate of \$4.70 for this year unchanged.

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
Shares	136	132	117	131	122	112	101	96	86	83	83	80

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 should not be the norm. Q3 results showed what a more normalized quarter looks like and we believe this will be the case going forward. 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 5.0% 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 Q3 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%	108%	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%	3.0%

The company's price-to-book ratio has moved around significantly as its fortunes have risen and fallen, similar to other insurance 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 meaningful 3.4% 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%.

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.



Axis Capital (AXS)

Updated October 26th, 2018 by Josh Arnold

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 3.0%. That yield would be a new high for Axis but given that its dividend is far more mature 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

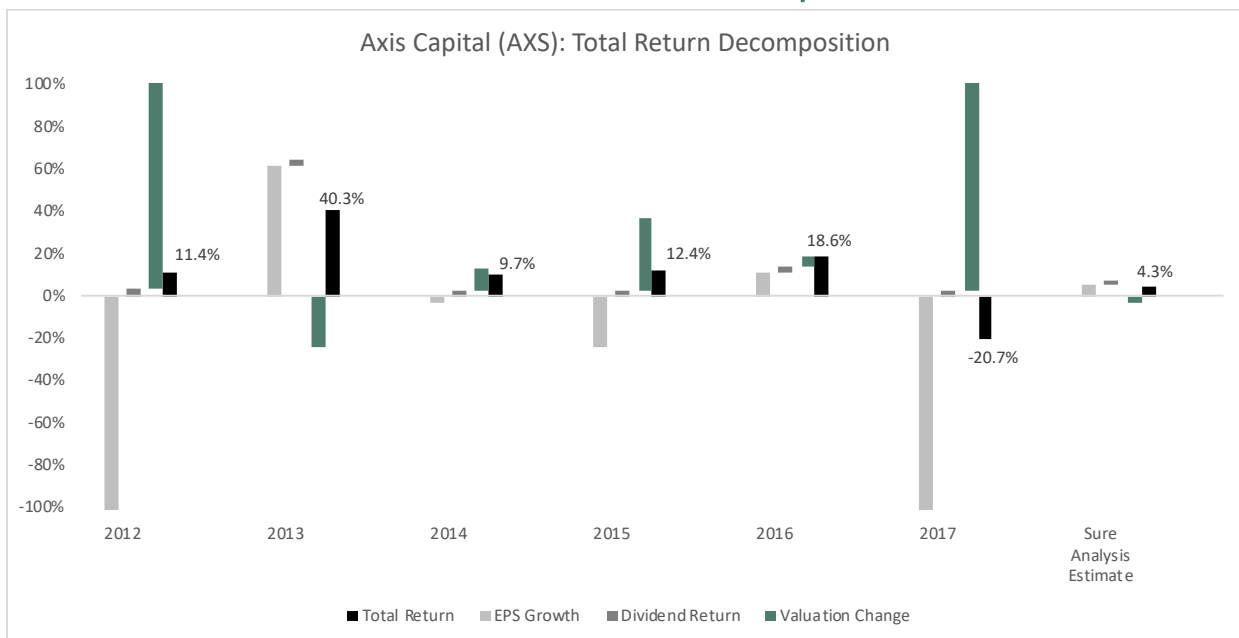
Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2023
Net L/E	64%	51%	57%	81%	61%	58%	57%	59%	60%	79%	57%	58%
Debt/A	69%	64%	66%	69%	69%	70%	71%	71%	70%	78%	76%	75%
Int. Cov.	13.9	17.9	17.0	2.0	9.9	12.9	12.1	13.6	11.2	-5.7	11.0	13.0
Payout	34%	16%	19%	N/A	28%	19%	21%	30%	32%	N/A	33%	33%
Std.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

Final Thoughts & Recommendation

We see Axis as overvalued and offering investors total annual returns of just 4.3% in the coming years. Axis' earnings-per-share growth of 5.0% will largely be offset by a 3.4% 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, and we rate it a sell. Investors should wait for a decline in this insurer's price-to-book ratio before buying in.

Total Return Breakdown by Year



[Click here to rate and review this research report. Your feedback is important to us.](#)

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.



Axis Capital (AXS)

Updated October 26th, 2018 by Josh Arnold

Income Statement Metrics

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Revenue	4442	4127	4233	4451	4170	3897	3846	3567	2786	2810
SG&A Exp.	579	603	597	622	575	561	459	450	370	336
D&A Exp.	81	25	26	25	23	14	17	14	15	11
Net Profit	-369	513	642	811	727	547	46	857	498	387
Net Margin	-8.3%	12.4%	15.2%	18.2%	17.4%	14.0%	1.2%	24.0%	17.9%	13.8%
Free Cash Flow	259	407	791	862	1097	1121	1190	1188	850	1526
Income Tax	-8	6	3	26	7	3	15	39	42	20

Balance Sheet Metrics

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Total Assets	24760	20814	19982	19956	19635	18852	17806	16446	15307	14283
Cash & Equivalents	949	1039	988	922	923	760	982	930	789	1698
Acc. Receivable	6363	4663	4090	3735	3620	3340	3187	2921	13	
Goodwill & Int.	567	85	87	89	90	97	100	103	92	60
Total Liabilities	19419	14541	14115	14076	13767	13073	12362	10821	9806	9822
Accounts Payable	1000	556	366	437	256	335	358	185	173	202
Long-Term Debt	1377	993	992	991	996	995	995	994	499	564
Total Equity	4566	5146	5239	5193	5190	5277	4944	5125	5000	3961
D/E Ratio	0.26	0.16	0.17	0.17	0.17	0.17	0.18	0.18	0.09	0.13

Profitability & Per Share Metrics

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Return on Assets	-1.6%	2.5%	3.2%	4.1%	3.8%	3.0%	0.3%	5.4%	3.4%	2.7%
Return on Equity	-7.6%	9.9%	12.3%	15.6%	13.9%	10.7%	0.9%	16.9%	11.1%	9.0%
ROIC	-5.3%	7.3%	9.3%	11.8%	10.7%	8.3%	0.7%	13.6%	9.0%	7.3%
Shares Out.	136	132	117	131	122	112	101	96	86	83
Revenue/Share	52.81	45.08	42.48	42.10	36.16	31.52	30.02	26.19	18.53	18.09
FCF/Share	3.08	4.44	7.94	8.16	9.51	9.06	9.29	8.72	5.65	9.82

Note: All figures in millions of U.S. Dollars unless per share or indicated otherwise.

Disclaimer

Nothing presented herein is, or is intended to constitute, specific investment advice. Nothing in this research report should be construed as a recommendation to follow any investment strategy or allocation. Any forward-looking statements or forecasts are based on assumptions and actual results are expected to vary from any such statements or forecasts. No reliance should be placed on any such statements or forecasts when making any investment decision. While Sure Dividend has used reasonable efforts to obtain information from reliable sources, we make no representations or warranties as to the accuracy, reliability or completeness of third-party information presented herein. No guarantee of investment performance is being provided and no inference to the contrary should be made. There is a risk of loss from an investment in marketable securities. Past performance is not a guarantee of future performance.