Chubb Ltd. (CB)

Updated November 1st, 2018 by Ben Reynolds

Key Metrics

Current Price:	$126	**5 Year CAGR Estimate:**	9.6%	**Volatility Percentile:**	2.8%
Fair Value Price:	$122	**5 Year Growth Estimate:**	8.0%	**Momentum Percentile:**	17.2%
% Fair Value:	103%	**5 Year Valuation Multiple Estimate:**	-0.7%	**Growth Percentile:**	71.8%
Dividend Yield:	2.3%	**5 Year Price Target**	$179	**Valuation Percentile:**	45.6%
Dividend Risk Score:	A	**Retirement Suitability Score:**	B	**Total Return Percentile:**	52.9%

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 created 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$58 billion.

Chubb reported (10/23/18) financial results for the third quarter of fiscal 2018 in late October. In the quarter, the company's most widely-cited profitability metric (core operating income excluding catastrophic losses) increased by 2.9% versus the same quarter a year ago. Chubb's book value per share grew 0.4% versus the 2nd quarter of 2018. Importantly, Chubb's combined ratio in the quarter was 90.9%, showing very profitable underwriting activity. Chubb's most recent quarterly results were underwhelming, showing tepid growth. Also, the company has significantly slowed down its share repurchase activity. Share count has declined just 0.1% in the last year.

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	***$115***	***$169***
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. Due to recent weakness, we are lowering our book value per share estimate for fiscal 2018 from $118 to $115. Applying an 8% growth rate to this estimate allows us to calculate our 2023 book value per share estimate of $169. Earnings are expected to be around $10 this year and should grow at a similar rate as book value (over 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	***12.6***	***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	***1.10***	***1.06***
Avg. Yld.	2.0%	2.6%	2.4%	2.3%	2.6%	2.3%	2.5%	2.4%	2.2%	2.0%	***2.3%***	***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 12.6 and a price-to-book ratio of 1.10. 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 0.7% headwind 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
GP/A	13.5%	16.4%	16.3%	18.7%	18.5%	23.6%	24.4%	26.6%	17.9%	20.9%	***21.5%***	***23.0%***
Debt/A	36.3%	28.2%	25.1%	23.9%	30.9%	25.3%	28.9%	24.2%	48.6%	51.8%	***50.6%***	***49.0%***
Int. Cov.	10.3	35.8	63.7	N/A	N/A	N/A	966.5	2999.3	19.8	21.8	***31.0***	***50.0***
Payout	5.4%	15.1%	13.3%	12.0%	14.2%	17.4%	18.5%	19.1%	20.8%	19.8%	***18.6%***	***17.6%***
Std. Dev.	48.0%	32.1%	27.2%	22.9%	15.5%	16.1%	23.5%	17.1%	14.9%	8.4%	***12.0%***	***15.0%***

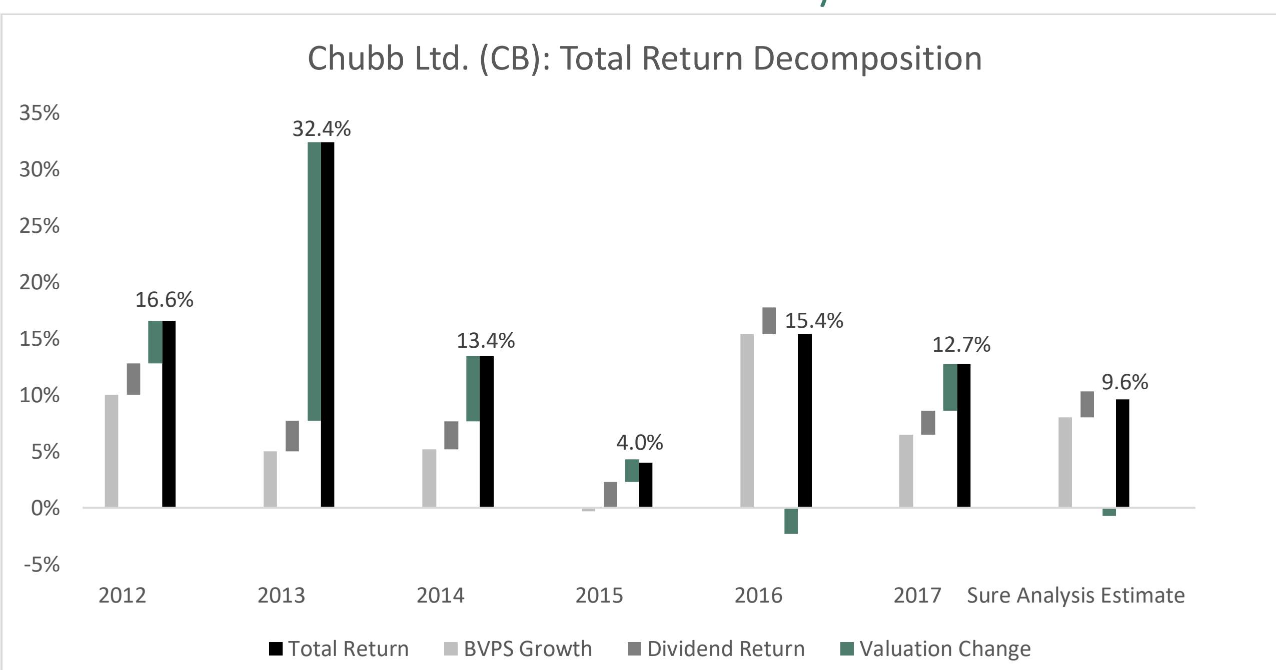
As an insurance company, Chubb does not report gross profits, which explains the lack of our typical gross-profits-to-assets ratio. Its other quality metrics are satisfactory. Most notably, Chubb is on pace to pay out less than one-third of its earnings in fiscal 2018, which gives it plenty of room to continue increasing its dividend if 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 (Aflac is an example). Chubb therefore fails to earn a buy recommendation from Sure Dividend at current prices. The company is a strong hold at current prices. It will be a buy when trading below fair value.

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.

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Income Statement Metrics

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Revenue	13632	15075	16006	16834	17936	19261	19171	18987	31469	32243
SG&A Exp.	1737	1811	1858	2068	2096	2211	2245	2270	3081	2833
D&A Exp.	N/A	N/A	N/A	N/A	N/A	N/A	0	171	1578	260
Net Profit	1197	2549	3108	1540	2706	3758	2853	2834	4135	3861
Net Margin	8.8%	16.9%	19.4%	9.1%	15.1%	19.5%	14.9%	14.9%	13.1%	12.0%
Free Cash Flow	4101	3335	3546	3470	3995	4022	4496	3864	5292	4503
Income Tax	370	528	559	502	270	480	634	462	815	-139

Balance Sheet Metrics

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Total Assets ($B)	72.06	77.98	83.36	87.32	92.55	94.51	98.25	102.31	159.79	167.02
Cash & Equivalents	867	669	772	614	615	579	655	1775	985	728
Acc. Receivable	3453	3671	4233	17025	16466	16471	17635	16896	22729	24552
Goodwill & Int.	3747	3931	4664	5475	5589	5940	6190	6078	22450	22380
Total Liab. ($B)	57.61	58.31	60.38	62.99	65.01	65.69	68.66	73.17	111.51	115.85
Accounts Payable	2841	3295	3282	9825	10664	10071	11152	11522	15347	17150
Long-Term Debt	3277	3319	4658	4920	5070	6017	4816	9696	13418	12877
Total Equity	14446	19667	22974	24332	27531	28825	29587	29135	48275	51172
D/E Ratio	0.23	0.17	0.20	0.20	0.18	0.21	0.16	0.33	0.28	0.25

Profitability & Per Share Metrics

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Return on Assets	1.7%	3.4%	3.9%	1.8%	3.0%	4.0%	3.0%	2.8%	3.2%	2.4%
Return on Equity	7.7%	14.9%	14.6%	6.5%	10.4%	13.3%	9.8%	9.7%	10.7%	7.8%
ROIC	6.5%	12.5%	12.3%	5.4%	8.7%	11.1%	8.2%	7.7%	8.2%	6.1%
Shares Out.	333.7	336.52	335.54	331.02	337.81	336.76	328.66	324.56	465.97	463.83
Revenue/Share	40.74	44.66	46.90	49.40	52.33	55.97	56.55	57.74	67.54	68.43
FCF/Share	12.26	9.88	10.39	10.18	11.66	11.69	13.26	11.75	11.36	9.56

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