



Axis Capital Holdings Limited (AXS)

Updated August 6th, 2019 by Josh Arnold

Key Metrics

Current Price:	\$62	5 Year CAGR Estimate:	3.6%	Volatility Percentile:	20.2%
Fair Value Price:	\$51	5 Year Growth Estimate:	5.0%	Momentum Percentile:	80.7%
% Fair Value:	122%	5 Year Valuation Multiple Estimate:	-4.0%	Growth Percentile:	37.3%
Dividend Yield:	2.6%	5 Year Price Target	\$65	Valuation Percentile:	20.1%
Dividend Risk Score:	A	Retirement Suitability Score:	B	Total Return Percentile:	15.2%

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 \$5.2 billion with \$4.5 billion in annual revenue.

Axis reported Q2 earnings on 7/30/19 and results were quite strong, leading us to boost our earnings-per-share estimate for this year. Gross premiums written decreased slightly on a reported basis, but was up 1% on a constant currency basis, to \$1.6 billion. Strength in the reinsurance segment offset relative weakness in the insurance segment. Improved market share in Japan produced gains for the reinsurance segment, but the company's property insurance book offset some of those gains.

Axis' current accident loss ratio fell 270bps to 62% in Q2 as both weather-related and accident losses improved from the year-ago period. Weather-related losses tend to be somewhat volatile for insurers, as they are obviously unpredictable. Further, losses tend to be quite sizable when a hurricane or other disaster strikes, so investors should keep this in mind when viewing Q2 results. Higher reserves offset some of this gain, leading to a net loss and expense ratio that was up 20bps to 59.8% in Q2. G&A costs rose 80bps year-over-year, and the combined ratio was up 300bps to 96.1%.

Book value was up \$3.15, or 6%, to \$55.99 in Q2. Earnings-per-share came to \$1.69 on an adjusted basis, an increase from \$1.31 in the year-ago period. We have boosted our earnings-per-share estimate for this year from \$5.00 to \$5.20.

Growth on a Per-Share Basis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
BV/S	\$37.84	\$43.65	\$37.79	\$43.23	\$46.32	\$51.50	\$54.54	\$59.54	\$54.91	\$49.72	\$55.99	\$71.46
EPS	\$5.10	\$4.60	-\$0.90	\$3.41	\$5.49	\$5.32	\$4.02	\$4.48	-\$3.15	\$1.92	\$5.20	\$6.64
DPS	\$0.81	\$0.86	\$0.93	\$0.97	\$1.02	\$1.10	\$1.22	\$1.43	\$1.53	\$1.57	\$1.60	\$2.10
Shares	132	117	131	122	112	101	96	86	84	84	84	83

Earnings-per-share have been tremendously volatile for the past decade, which is 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, as we saw in Q2 with increased loss reserves once again. Axis has suffered of late due to higher claims from disasters, but this should not reoccur moving forward. Q2 results extended the relative strength we saw in Q1, but Axis is still grappling with somewhat elevated expenses. However, we don't expect this to be the case over the long-term.

Axis also benefits from higher interest 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 ahead 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 for growth and in our view, continues to be well-managed.

We see the dividend growing at about the same rate as earnings, and should reach \$2.10 or so in the next five years.

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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Valuation Analysis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	Now	2024
Avg. P/B	71%	73%	85%	78%	95%	90%	99%	94%	113%	111%	111%	91%
Avg. Yld.	3.0%	2.7%	2.9%	2.9%	2.3%	2.4%	2.3%	2.6%	2.5%	2.9%	2.6%	3.2%

The company's price-to-book ratio has moved around significantly as its fortunes have risen and fallen, similar to other insurance companies' valuations. Axis continues to enjoy a price-to-book ratio that is well above average and as a result, we see it as overvalued. The stock is still about as expensive as it has been in recent years after Axis spent much of the last decade at meaningful discounts to book value. We therefore see a 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% from today's levels in excess of 100%.

As a result of a declining valuation, we see the dividend payment growing as a percentage of the share price, increasing from the current 2.2% to 3.2%. 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

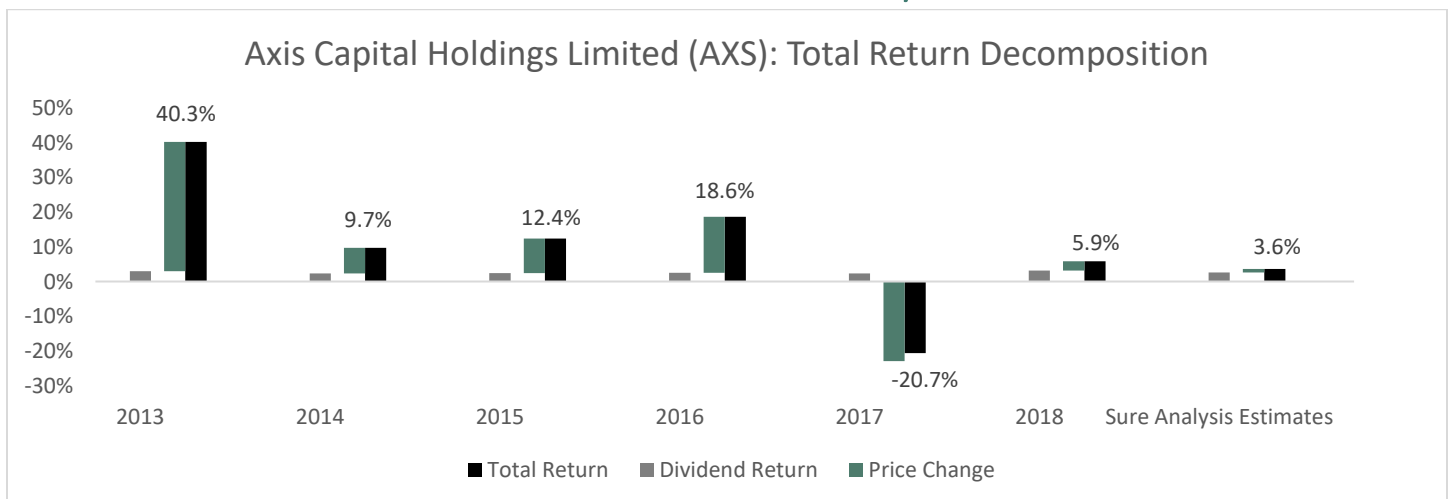
Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
Payout	16%	19%	N/A	28%	19%	21%	30%	32%	N/A	82%	31%	32%

Axis' payout ratio is only about one-third of operating earnings in normalized years, so we find the dividend to be reasonably safe. The yield is also attractive as it continues to move higher, and is now near 3%. Competitive advantages are tough to come by for insurers, and Axis is no different. On the bright side, recessions tend not to sway performance one way or the other, so there is a diversifying component to adding Axis to one's portfolio.

Final Thoughts & Recommendation

We see Axis as overvalued and offering investors total annual returns of just 3.6% in the coming years. Axis' earnings-per-share growth of 5.0% will largely be offset by a 4% decline in the valuation, so the bulk of its returns will result from the 2.6% yield. Axis simply does not offer high enough total returns to make it an attractive investment at current prices, which causes it to earn a sell recommendation from Sure Dividend at current prices.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Revenue	2786	3567	3846	3897	4170	4451	4233	4127	4442	5120
SG&A Exp.	370	450	459	561	575	622	597	603	579	108
D&A Exp.	15	14	17	14	23	25	26	25	81	N/A
Net Profit	498	857	46	547	727	811	642	513	-369	43
Net Margin	17.9%	24.0%	1.2%	14.0%	17.4%	18.2%	15.2%	12.4%	-8.3%	0.8%
Free Cash Flow	850	1188	1190	1121	1097	862	791	407	259	N/A
Income Tax	42	39	15	3	7	26	3	6	-8	-29

Balance Sheet Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Total Assets	15307	16446	17806	18852	19635	19956	19982	20814	24760	24133
Cash & Equivalents	789	930	982	760	923	922	988	1039	949	1830
Acc. Receivable	13	2921	3187	3340	3620	3735	4090	4663	6363	6822
Goodwill & Int.	92	103	100	97	90	89	87	85	567	379
Total Liabilities	9806	10821	12362	13073	13767	14076	14115	14541	19419	19102
Accounts Payable	173	185	358	335	256	437	366	556	1000	1451
Long-Term Debt	499	994	995	995	996	991	992	993	1377	1342
Total Equity	5000	5125	4944	5277	5190	5193	5239	5146	4566	4255
D/E Ratio	0.09	0.18	0.18	0.17	0.17	0.17	0.17	0.16	0.26	0.27

Profitability & Per Share Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Return on Assets	3.4%	5.4%	0.3%	3.0%	3.8%	4.1%	3.2%	2.5%	-1.6%	0.2%
Return on Equity	11.1%	16.9%	0.9%	10.7%	13.9%	15.6%	12.3%	9.9%	-7.6%	1.0%
ROIC	9.0%	13.6%	0.7%	8.3%	10.7%	11.8%	9.3%	7.3%	-5.3%	0.7%
Shares Out.	132	117	131	122	112	101	96	86	84	84
Revenue/Share	18.53	26.19	30.02	31.52	36.16	42.10	42.48	45.08	52.81	60.94
FCF/Share	5.65	8.72	9.29	9.06	9.51	8.16	7.94	4.44	3.08	N/A

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

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