



# Chubb Ltd. (CB)

Updated August 26<sup>th</sup>, 2019 by Jonathan Weber

## Key Metrics

<b>Current Price:</b>	\$153	<b>5 Year CAGR Estimate:</b>	4.6%	<b>Volatility Percentile:</b>	3.6%
<b>Fair Value Price:</b>	\$128	<b>5 Year Growth Estimate:</b>	6.0%	<b>Momentum Percentile:</b>	77.2%
<b>% Fair Value:</b>	120%	<b>5 Year Valuation Multiple Estimate:</b>	-3.4%	<b>Growth Percentile:</b>	54.7%
<b>Dividend Yield:</b>	2.0%	<b>5 Year Price Target</b>	\$172	<b>Valuation Percentile:</b>	25.2%
<b>Dividend Risk Score:</b>	A	<b>Retirement Suitability Score:</b>	B	<b>Total Return Percentile:</b>	19.9%

## 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\$70 billion.

Chubb reported its second quarter earnings results on August 8. The company reported that its revenues totaled \$7.89 billion during the second quarter of fiscal 2019, which was 3.0% more than the revenues that Chubb generated during the previous year's quarter. Adjusted for forex rate changes, Chubb would have delivered an even better revenue growth rate, as premiums were up even more in constant dollars. Chubb was able to generate net investment income of \$902 million during the quarter on a pre-tax basis, which was more than during the previous quarter.

Chubb generated earnings-per-share of \$2.60 during the second quarter, which was slightly more than what the analyst community had forecasted. Chubb did not manage to grow its earnings-per-share versus the previous year's quarter, during which earnings-per-share had totaled \$2.68. The fact that Chubb's net profits did not rise, despite positive trends from increasing net premiums and higher investment income, can be explained by the fact that Chubb's catastrophe losses during the most recent quarter were up compared to the previous year's quarter. Chubb managed to grow its book value during the second quarter. Book value stood at \$117.97 at the end of Q2, while tangible book value stood at \$73.74, up 3% and 5% from the end of the first quarter, respectively.

## Growth on a Per-Share Basis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
<b>EPS</b>	\$8.17	\$7.79	\$6.96	\$7.66	\$9.34	\$9.80	\$9.77	\$10.11	\$8.02	\$9.45	<b>\$10.89</b>	<b>\$13.25</b>
<b>BVPS</b>	\$58.4	\$68.5	\$74.1	\$81.5	\$85.6	\$90.0	\$89.8	\$103.6	\$110.3	\$109.6	<b>\$121.0</b>	<b>\$162.0</b>
<b>DPS</b>	\$1.19	\$1.30	\$1.50	\$1.94	\$2.14	\$2.56	\$2.64	\$2.72	\$2.80	\$2.90	<b>\$3.00</b>	<b>\$4.00</b>
<b>Shares<sup>1</sup></b>	337	336	331	338	337	329	325	466	464	463	<b>461</b>	<b>450</b>

Chubb does not have a strong earnings growth track record. The company's earnings-per-share in fiscal 2018 were just 16% higher than the equivalent figure in 2009, which equates to an earnings-per-share growth rate of just 1.6% annually. Chubb's company-wide net profits rose at a higher pace, but the company's share count rose considerably throughout the last decade, which offset most of the business growth.

We believe that the more important metric to pay attention to is the company's book value per share (BVPS), due to the cyclicity of the insurance industry. Chubb has compounded its book value per share at 7.3% per year since 2009. Looking ahead, we believe that a 6% growth rate in per-share book value is feasible for Chubb. 2018 was a year where Chubb's book value per share declined, but that was an outlier, and based on mark-to-market losses due to the equity market sell-off in Q4. In H1 of 2019, these losses have been reversed already.

<sup>1</sup> In Millions

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/E	5.7	6.9	9.3	9.5	9.8	10.6	11.2	12.2	17.7	13.7	<b>14.0</b>	<b>10.0</b>
Avg. P/B	0.80	0.79	0.88	0.92	1.07	1.15	1.22	1.19	1.29	1.17	<b>1.26</b>	<b>1.06</b>
Avg. Yld.	2.6%	2.4%	2.3%	2.6%	2.3%	2.5%	2.4%	2.2%	2.0%	2.3%	<b>2.0%</b>	<b>2.3%</b>

After Chubb's valuation declined from the peak level that it had reached during 2017, shares were less expensive in 2018. Chubb's strong share price gains during 2019 have made its shares more expensive again, though. Both its price to earnings multiple, as well as its price to book multiple, are at an above-average level right now. We therefore see some multiple compression headwinds going forward.

## Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
Payout	14.6%	16.7%	21.6%	25.3%	22.9%	26.1%	27.0%	26.9%	34.9%	30.7%	<b>27.5%</b>	<b>27.4%</b>

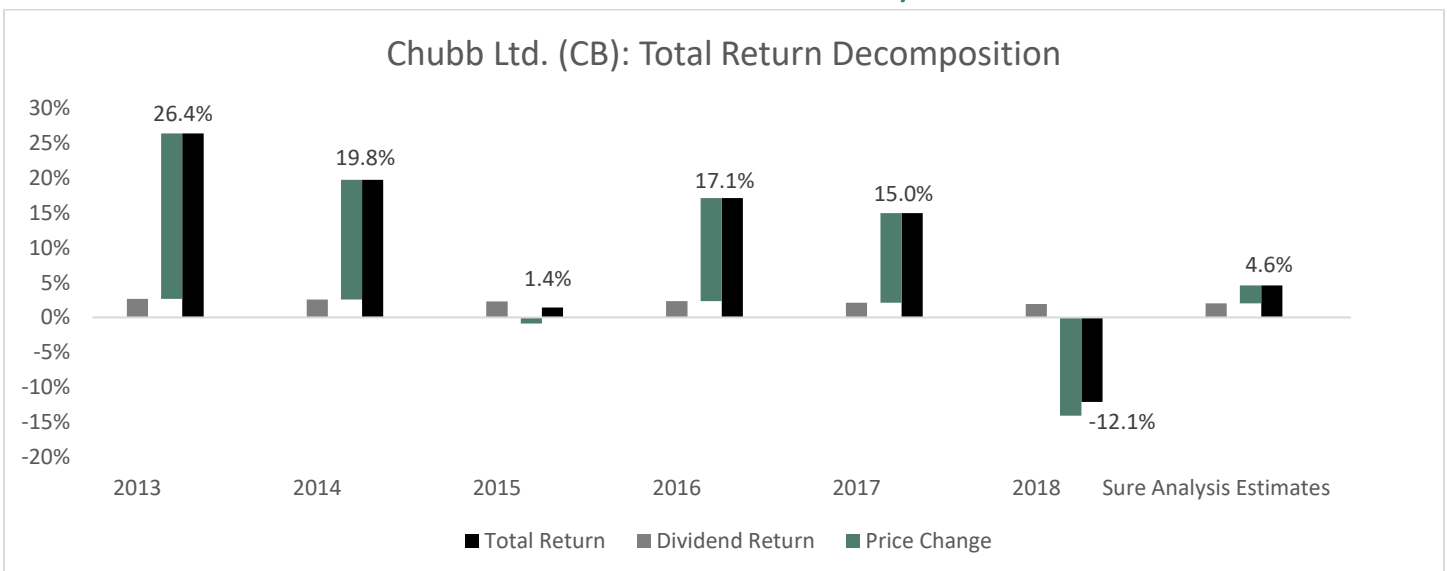
Chubb's profits can vary from year to year, depending on the catastrophe losses and the performance of Chubb's investments during that individual year. The company nevertheless was easily able to cover its dividend payments with its net profits during each year of the last decade. The dividend payout ratio, which is less than 30% based on our estimates for fiscal 2019, leaves a lot of room for further dividend increases.

Chubb remained highly profitable during the last financial crisis, unlike many other financial companies. The company also had a relatively stable, non-volatile stock price in the past. Chubb thus may appeal to risk-averse investors who want to avoid dividend cuts and minimize the price volatility of their investment portfolios. Chubb's size grew considerably thanks to the combination with ACE in 2016, which provides for scale advantages over smaller competitors.

## Final Thoughts & Recommendation

Chubb has not delivered meaningful earnings growth in the past, but thanks to consistent profitability, even during the last financial crisis, its book value rose meaningfully, and should continue to do so. Chubb is a low-risk stock, but the company's above-average valuation and low forecasted total returns make us rate Chubb a sell.

## Total Return Breakdown by Year



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## Income Statement Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
<b>Revenue</b>	15075	16006	16834	17936	19261	19171	18987	31469	32243	32717
<b>SG&amp;A Exp.</b>	1811	1858	2068	2096	2211	2245	2270	3081	2833	2886
<b>D&amp;A Exp.</b>	N/A	N/A	N/A	N/A	N/A	0	171	1578	260	339
<b>Net Profit</b>	2549	3108	1540	2706	3758	2853	2834	4135	3861	3962
<b>Net Margin</b>	16.9%	19.4%	9.1%	15.1%	19.5%	14.9%	14.9%	13.1%	12.0%	12.1%
<b>Free Cash Flow</b>	3335	3546	3470	3995	4022	4496	3864	5292	4503	5480
<b>Income Tax</b>	528	559	502	270	480	634	462	815	-139	695

## Balance Sheet Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
<b>Total Assets (\$B)</b>	77.98	83.36	87.32	92.55	94.51	98.25	102.31	159.79	167.02	167.77
<b>Cash &amp; Equivalents</b>	669	772	614	615	579	655	1775	985	728	1247
<b>Acc. Receivable</b>	3671	4233	17025	16466	16471	17635	16896	22729	24552	26270
<b>Goodwill &amp; Int.</b>	3931	4664	5475	5589	5940	6190	6078	22450	22380	21709
<b>Total Liab. (\$B)</b>	58.31	60.38	62.99	65.01	65.69	68.66	73.17	111.51	115.85	117.46
<b>Accounts Payable</b>	3295	3282	8440	8869	8438	9821	10475	14254	15413	16909
<b>Long-Term Debt</b>	3319	4658	4920	5070	6017	4816	9696	13418	12877	12904
<b>Total Equity</b>	19667	22974	24332	27531	28825	29587	29135	48275	51172	50312
<b>D/E Ratio</b>	0.17	0.20	0.20	0.18	0.21	0.16	0.33	0.28	0.25	0.26

## Profitability & Per Share Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
<b>Return on Assets</b>	3.4%	3.9%	1.8%	3.0%	4.0%	3.0%	2.8%	3.2%	2.4%	2.4%
<b>Return on Equity</b>	14.9%	14.6%	6.5%	10.4%	13.3%	9.8%	9.7%	10.7%	7.8%	7.8%
<b>ROIC</b>	12.5%	12.3%	5.4%	8.7%	11.1%	8.2%	7.7%	8.2%	6.1%	6.2%
<b>Shares Out.</b>	337	336	331	338	337	329	325	466	464	463
<b>Revenue/Share</b>	44.66	46.90	49.40	52.33	55.97	56.55	57.74	67.54	68.43	70.09
<b>FCF/Share</b>	9.88	10.39	10.18	11.66	11.69	13.26	11.75	11.36	9.56	11.74

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

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