Chubb Ltd. (CB)

Updated October 29th, 2019 by Jonathan Weber

Key Metrics

Current Price:	$149	**5 Year CAGR Estimate:**	5.2%	**Volatility Percentile:**	4.5%
Fair Value Price:	$130	**5 Year Growth Estimate:**	6.0%	**Momentum Percentile:**	68.9%
% Fair Value:	114%	**5 Year Valuation Multiple Estimate:**	-2.6%	**Growth Percentile:**	57.6%
Dividend Yield:	2.0%	**5 Year Price Target**	$174	**Valuation Percentile:**	43.3%
Dividend Risk Score:	A	**Retirement Suitability Score:**	B	**Total Return Percentile:**	33.9%

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$68 billion.

Chubb reported its third quarter earnings results on October 29. The company reported that its earned premiums totaled $8.3 billion during the third quarter of fiscal 2019, which was 5.2% more than the premiums that Chubb earned during the previous year's quarter. Net written premiums were up 6% year over year, and up 7% in constant currencies. Chubb was able to generate net investment income of $870 million during the quarter, which was more than during the previous year's quarter, when Chubb generated net investment income of $820 million.

Chubb generated earnings-per-share of $2.70 during the third quarter, which was slightly more than what the analyst community had forecasted. Chubb managed to grow its earnings-per-share by 12% versus the previous year's quarter. Chubb's net profits did not only benefit from higher premiums that were earned, and from higher investment income, but Chubb also benefited from a slightly lower combined ratio, which dropped to 90.2%. Chubb continued the trend of growing its book value during the quarter, which resulted in book value of $120.33 at the end of the third quarter, while tangible book value stood at $76.21, up 10% and 16%, respectively, from the end of fiscal 2018.

Growth on a Per-Share Basis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
EPS	$8.17	$7.79	$6.96	$7.66	$9.34	$9.80	$9.77	$10.11	$8.02	$9.45	***$10.89***	***$13.25***
BVPS	$58.4	$68.5	$74.1	$81.5	$85.6	$90.0	$89.8	$103.6	$110.3	$109.6	***$123.0***	***$164.6***
DPS	$1.19	$1.30	$1.50	$1.94	$2.14	$2.56	$2.64	$2.72	$2.80	$2.90	***$3.00***	***$4.00***
Shares[1]	337	336	331	338	337	329	325	466	464	463	***461***	***450***

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 that Chubb generated during that time.

We believe that the more important metric 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 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 mostly based on mark-to-market losses due to the equity market sell-off in last year's Q4. During the first nine months of 2019, these losses have been reversed already, which is why the book value growth rate in 2019 will be at an above-average level.

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[1] In Millions

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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	***13.7***	***10.0***
Avg. P/B	0.80	0.79	0.88	0.92	1.07	1.15	1.22	1.19	1.29	1.17	***1.21***	***1.06***
Avg. Yld.	2.6%	2.4%	2.3%	2.6%	2.3%	2.5%	2.4%	2.2%	2.0%	2.3%	***2.0%***	***2.3%***

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, which is why Chubb's 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 over the coming years.

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%	***27.5%***	***27.4%***

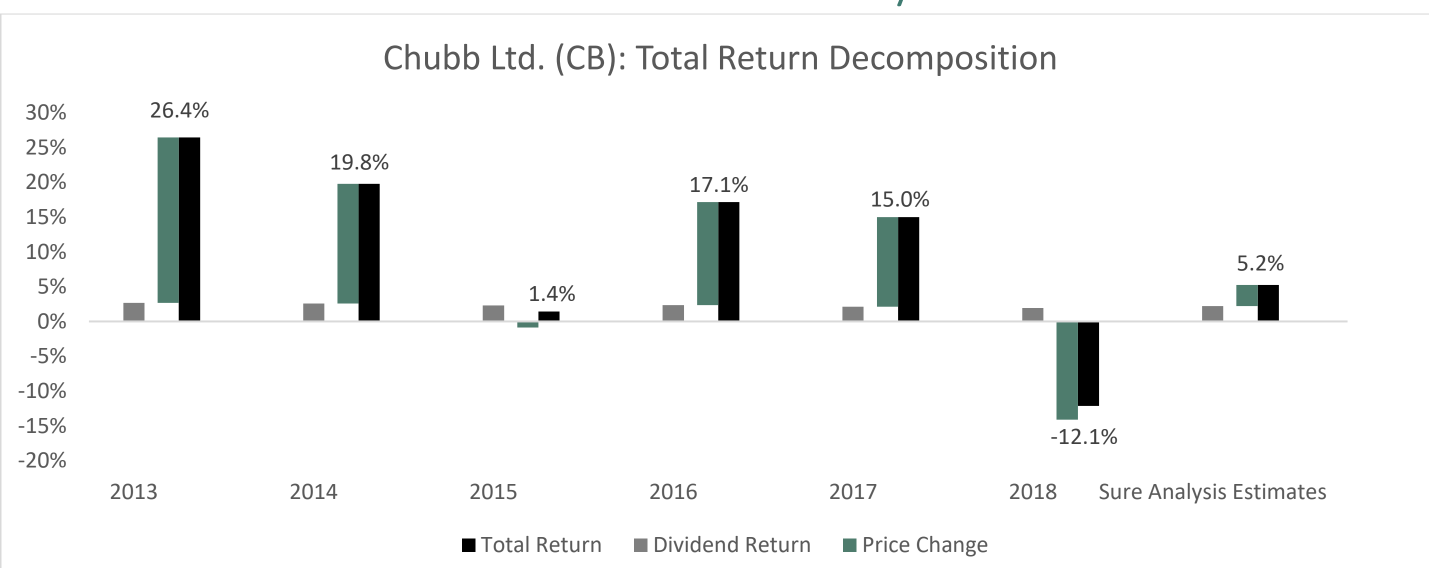
Chubb's profits can vary from year to year, depending on the catastrophe losses and the performance of Chubb's investments during that individual year. The company nevertheless was easily able to cover its dividend payments with its net profits during each year of the last decade. The dividend payout 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 hold.

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

Balance Sheet Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Total Assets ($B)	77.98	83.36	87.32	92.55	94.51	98.25	102.31	159.79	167.02	167.77
Cash & Equivalents	669	772	614	615	579	655	1775	985	728	1247
Acc. Receivable	3671	4233	17025	16466	16471	17635	16896	22729	24552	26270
Goodwill & Int.	3931	4664	5475	5589	5940	6190	6078	22450	22380	21709
Total Liab. ($B)	58.31	60.38	62.99	65.01	65.69	68.66	73.17	111.51	115.85	117.46
Accounts Payable	3295	3282	8440	8869	8438	9821	10475	14254	15413	16909
Long-Term Debt	3319	4658	4920	5070	6017	4816	9696	13418	12877	12904
Total Equity	19667	22974	24332	27531	28825	29587	29135	48275	51172	50312
D/E Ratio	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
Return on Assets	3.4%	3.9%	1.8%	3.0%	4.0%	3.0%	2.8%	3.2%	2.4%	2.4%
Return on Equity	14.9%	14.6%	6.5%	10.4%	13.3%	9.8%	9.7%	10.7%	7.8%	7.8%
ROIC	12.5%	12.3%	5.4%	8.7%	11.1%	8.2%	7.7%	8.2%	6.1%	6.2%
Shares Out.	337	336	331	338	337	329	325	466	464	463
Revenue/Share	44.66	46.90	49.40	52.33	55.97	56.55	57.74	67.54	68.43	70.09
FCF/Share	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.