# Chubb Ltd. (CB)

*Updated February 7th, 2020 by Jonathan Weber*

## Key Metrics

| | | | | | |
|---|---|---|---|---|---|
| **Current Price:** | $163 | **5 Year CAGR Estimate:** | 4.4% | **Market Cap:** | $74B |
| **Fair Value Price:** | $138 | **5 Year Growth Estimate:** | 6.0% | **Ex-Dividend Date:** | 03/21/20[1] |
| **% Fair Value:** | 118% | **5 Year Valuation Multiple Estimate:** | -3.3% | **Dividend Payment Date:** | 04/12/20[2] |
| **Dividend Yield:** | 1.8% | **5 Year Price Target** | $184 | **Years Of Dividend Growth:** | 26 |
| **Dividend Risk Score:** | A | **Retirement Suitability Score:** | B | **Last Dividend Increase:** | 3.4% |

## 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$74 billion.

Chubb reported its fourth quarter earnings results on February 4. The company reported that its earned premiums totaled $7.9 billion during the fourth quarter of fiscal 2019, which was 6.3% more than the premiums that Chubb earned during the previous year's quarter. Net written premiums were up 9% year-over-year, and up 10% in constant currencies. Chubb was able to generate net investment income of $890 million during the quarter, which was more than during the previous quarter, when Chubb generated net investment income of $870 million.

Chubb generated earnings-per-share of $2.28 during the fourth quarter, which was slightly more than what the analyst community had forecasted. Chubb managed to grow its earnings-per-share by 13% 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 92.7% for the property & casualty segment. Chubb continued the trend of growing its book value, which resulted in book value of $122.42 at the end of the fourth quarter, while tangible book value stood at $78.14, up 12% and 18%, respectively, from the end of fiscal 2018.

## Growth on a Per-Share Basis

| Year | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2025 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| EPS | $7.79 | $6.96 | $7.66 | $9.34 | $9.80 | $9.77 | $10.11 | $8.02 | $9.45 | $10.11 | ***$11.05*** | ***$12.20*** |
| BVPS | $68.5 | $74.1 | $81.5 | $85.6 | $90.0 | $89.8 | $103.6 | $110.3 | $109.6 | $122.4 | ***$130.0*** | ***$174.0*** |
| DPS | $1.30 | $1.50 | $1.94 | $2.14 | $2.56 | $2.64 | $2.72 | $2.80 | $2.90 | $3.00 | ***$3.00*** | ***$4.00*** |
| Shares[3] | 336 | 331 | 338 | 337 | 329 | 325 | 466 | 464 | 463 | 456 | ***453*** | ***445*** |

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 more than 7% 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

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[1] Estimated date
[2] Estimated date
[3] 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.*

to the equity market sell-off in Q4 of 2018. During 2019, these losses reversed, which is why book value grew at an above-average pace during the most recent year.

## Valuation Analysis

| Year | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | Now | 2025 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Avg. P/E** | 6.9 | 9.3 | 9.5 | 9.8 | 10.6 | 11.2 | 12.2 | 17.7 | 13.7 | 15.4 | ***14.8*** | ***10.0*** |
| **Avg. P/B** | 0.79 | 0.88 | 0.92 | 1.07 | 1.15 | 1.22 | 1.19 | 1.29 | 1.17 | 1.27 | ***1.25*** | ***1.06*** |
| **Avg. Yld.** | 2.4% | 2.3% | 2.6% | 2.3% | 2.5% | 2.4% | 2.2% | 2.0% | 2.3% | 1.9% | ***1.8%*** | ***2.2%*** |

After Chubb's valuation declined from the peak level that it had reached during 2017, shares were less expensive in 2018 and 2019. Chubb's share price is not low, though, which is why Chubb's price to earnings multiple, as well as its price-to-book multiple, are still at an above-average level right now. We therefore see some multiple compression headwinds over the coming years. Chubb's dividend yield is on par with the broad market's yield.

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

| Year | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2025 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Payout** | 16.7% | 21.6% | 25.3% | 22.9% | 26.1% | 27.0% | 26.9% | 34.9% | 30.7% | 29.7% | ***27.1%*** | ***32.8%*** |

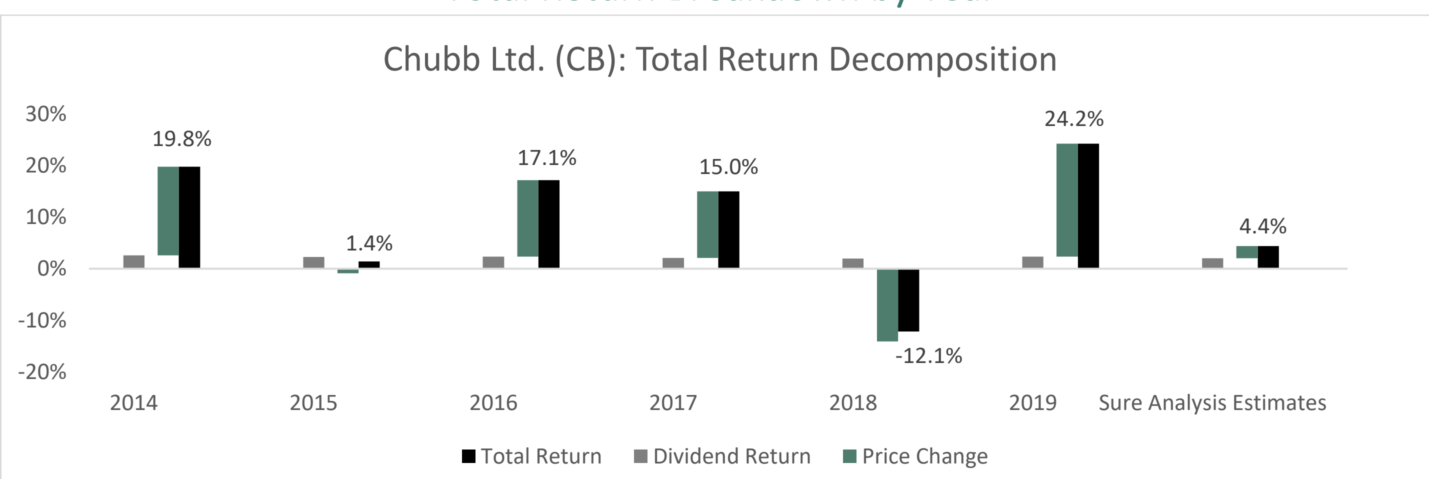
Chubb's profits can vary from year to year, depending on the catastrophe losses and the performance of Chubb's investments during that individual year. The company nevertheless was easily able to cover its dividend payments with its net profits during each year of the last decade. The dividend payout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

| Year | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 |
|---|---|---|---|---|---|---|---|---|---|---|
| Revenue | 16,006 | 16,834 | 17,936 | 19,261 | 19,171 | 18,987 | 31,469 | 32,243 | 32,717 | 34,186 |
| SG&A Exp. | 1,858 | 2,068 | 2,096 | 2,211 | 2,245 | 2,270 | 3,081 | 2,833 | 2,886 | 3,030 |
| D&A Exp. | | | | | - | 171 | 1,578 | 260 | 339 | |
| Net Profit | 3,108 | 1,540 | 2,706 | 3,758 | 2,853 | 2,834 | 4,135 | 3,861 | 3,962 | 4,454 |
| Net Margin | 19.4% | 9.1% | 15.1% | 19.5% | 14.9% | 14.9% | 13.1% | 12.0% | 12.1% | 13.0% |
| Free Cash Flow | 3,546 | 3,470 | 3,995 | 4,022 | 4,496 | 3,864 | 5,292 | 4,503 | 5,480 | |
| Income Tax | 559 | 502 | 270 | 480 | 634 | 462 | 815 | (139) | 695 | 795 |

## Balance Sheet Metrics

| Year | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 |
|---|---|---|---|---|---|---|---|---|---|---|
| Total Assets ($B) | 83,355 | 87,321 | 92,545 | 94,510 | 98,248 | 102,306 | 159,786 | 167,022 | 167,771 | 176,943 |
| Cash & Equivalents | 772 | 614 | 615 | 579 | 655 | 1,775 | 985 | 728 | 1,247 | 1,537 |
| Acc. Receivable | 4,233 | 17,025 | 16,466 | 16,471 | 17,635 | 16,896 | 22,729 | 24,552 | 26,270 | 25,538 |
| Goodwill & Int. | 4,664 | 5,475 | 5,589 | 5,940 | 6,190 | 6,078 | 22,450 | 22,380 | 21,709 | 21,359 |
| Total Liab. ($B) | 60,381 | 62,989 | 65,014 | 65,685 | 68,661 | 73,171 | 111,511 | 115,850 | 117,459 | 121,612 |
| Accounts Payable | 3,282 | 8,440 | 8,869 | 8,438 | 9,821 | 10,475 | 14,254 | 15,413 | 16,909 | |
| Long-Term Debt | 4,658 | 4,920 | 5,070 | 6,017 | 4,816 | 9,696 | 13,418 | 12,877 | 12,904 | - |
| Total Equity | 22,974 | 24,332 | 27,531 | 28,825 | 29,587 | 29,135 | 48,275 | 51,172 | 50,312 | 55,331 |
| D/E Ratio | 0.20 | 0.20 | 0.18 | 0.21 | 0.16 | 0.33 | 0.28 | 0.25 | 0.26 | - |

## Profitability & Per Share Metrics

| Year | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 |
|---|---|---|---|---|---|---|---|---|---|---|
| Return on Assets | 3.9% | 1.8% | 3.0% | 4.0% | 3.0% | 2.8% | 3.2% | 2.4% | 2.4% | 2.6% |
| Return on Equity | 14.6% | 6.5% | 10.4% | 13.3% | 9.8% | 9.7% | 10.7% | 7.8% | 7.8% | 8.4% |
| ROIC | 12.3% | 5.4% | 8.7% | 11.1% | 8.2% | 7.7% | 8.2% | 6.1% | 6.2% | 7.5% |
| Shares Out. | 336 | 331 | 338 | 337 | 329 | 325 | 466 | 464 | 463 | 456 |
| Revenue/Share | 46.90 | 49.40 | 52.33 | 55.97 | 56.55 | 57.74 | 67.54 | 68.43 | 70.09 | 74.50 |
| FCF/Share | 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.*