



Chubb Ltd. (CB)

Updated April 25th, 2020 by Jonathan Weber

Key Metrics

Current Price:	\$104	5 Year CAGR Estimate:	13.0%	Market Cap:	\$47B
Fair Value Price:	\$137	5 Year Growth Estimate:	5.0%	Ex-Dividend Date:	06/21/20 ¹
% Fair Value:	76%	5 Year Valuation Multiple Estimate:	5.6%	Dividend Payment Date:	07/12/20 ²
Dividend Yield:	2.9%	5 Year Price Target	\$174	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 are traded with the ticker symbol CB.

Chubb reported its first quarter earnings results on April 21. The company reported that its earned premiums totaled \$7.8 billion during the first quarter of fiscal 2020, which was 9% 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 \$860 million during the quarter, which was more than during the previous year's quarter, when Chubb generated net investment income of \$850 million.

Chubb generated earnings-per-share of \$2.68 during the first quarter, which was slightly more than what the analyst community had forecasted. Chubb managed to grow its earnings-per-share by 7% 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 89.1% for the property & casualty segment. Chubb's book value was down due to some mark-to-market losses during the quarter. Management has, however, stated that this mark-to-market impact will only be transient, and reversed in future quarters.

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	\$10.50	\$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	\$166.0
DPS	\$1.30	\$1.50	\$1.94	\$2.14	\$2.56	\$2.64	\$2.72	\$2.80	\$2.90	\$3.00	\$3.00	\$3.92
Shares³	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 cyclicity 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 5% growth rate in per-share book value is feasible for Chubb. In 2018 Chubb's book value per share declined, which was based on mark-to-market losses due to the equity market sell-off in Q4 of 2018. This reversed in early 2019. We believe that a similar reversal following Q1's mark-to-market losses is likely.

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.



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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	9.9	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	0.8	1.05
Avg. Yld.	2.4%	2.3%	2.6%	2.3%	2.5%	2.4%	2.2%	2.0%	2.3%	1.9%	2.9%	2.3%

After Chubb's valuation declined from the peak level that it had reached during 2017, shares were less expensive in recent years, and in 2020, its share price declined to an even lower level. Chubb's share price is now quite low, Chubb's price-to-book multiple is at a below-average level right now. We see some multiple expansion tailwinds over the coming years. Chubb's dividend yield is now higher than that of the broad market.

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%	28.6%	32.1%

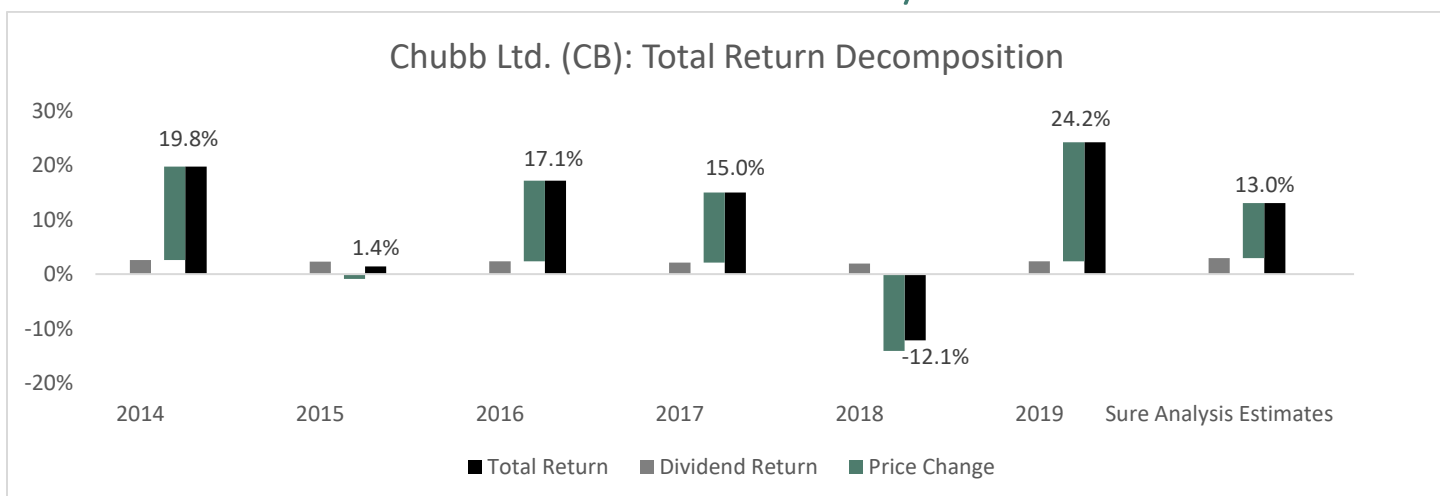
Chubb's profits can vary from year to year, depending on the catastrophe losses and the performance of Chubb's investments during that individual year. The company nevertheless was easily able to cover its dividend payments with its net profits during each year of the last decade. The dividend payout ratio, which is less than 30% based on our estimates for fiscal 2020, leaves a lot of room for future 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 in the long run. Chubb is a low-risk stock, and the current coronavirus crisis will likely not impact the company to a large degree. Shares thus appeal to income investors looking for a lower-risk stock. The total return outlook is very solid as well, which is why we rate Chubb's stock a buy at the current, very inexpensive price.

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.

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