



Axis Capital Holdings Limited (AXS)

Updated August 9th, 2020 by Josh Arnold

Key Metrics

Current Price:	\$44	5 Year CAGR Estimate:	11.6%	Market Cap:	\$3.7 B
Fair Value Price:	\$52	5 Year Growth Estimate:	5.0%	Ex-Dividend Date:	09/30/20 ¹
% Fair Value:	84%	5 Year Valuation Multiple Estimate:	3.5%	Dividend Payment Date:	10/15/20 ²
Dividend Yield:	3.7%	5 Year Price Target	\$67	Years Of Dividend Growth:	18
Dividend Risk Score:	F	Retirement Suitability Score:	F	Last Dividend Increase:	2.5%

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 has a market capitalization of \$3.7 billion and more than \$4 billion in annual revenue. Axis also has an impressive 18-year streak of dividend increases.

Axis reported second quarter earnings on July 28th, with results coming in ahead of expectations on both the top and bottom lines. Gross premiums written were up \$68 million or 4%, with constant currency gross premiums writing rising \$78 million, or 5%. The insurance segment saw a 7% gain to \$1.7 billion in Q2.

On a net basis, premiums written fell to \$1.1 billion. The reinsurance segment saw a -5% decline in net written premiums, with the insurance segment seeing a -2% decline. The company's current accident year combined ratio improved by 4.6% year-over-year, excluding catastrophe and weather-related losses.

Net investment income was \$45 million during the quarter, down from \$93 million in the first quarter of this year. The decline was due to negative returns from credit and real estate funds the company invested its float in during the quarter. Book value per share is up to \$55.09, a gain of 11% from the first quarter of this year. In addition, the company said there was no change to net claims provisions as a result of COVID-19.

Growth on a Per-Share Basis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
BV/S	\$43.65	\$37.79	\$43.23	\$46.32	\$51.50	\$54.54	\$59.54	\$54.91	\$49.72	\$55.79	\$55.09	\$70.31
EPS	\$4.60	-\$0.90	\$3.41	\$5.49	\$5.32	\$4.02	\$4.48	-\$3.15	\$1.92	\$2.70	\$0.35	\$5.00
DPS	\$0.86	\$0.93	\$0.97	\$1.02	\$1.10	\$1.22	\$1.43	\$1.53	\$1.57	\$1.61	\$1.64	\$2.09
Shares³	117	131	122	112	101	96	86	84	84	84	84	84

Earnings-per-share have been tremendously volatile during the past decade, which is expected for an insurer. Axis' profits rise and fall based upon how efficiently it writes premiums along with factors that are out of its control, including claims, as we saw in 2019 once again. Axis has suffered of late due to higher claims from disasters such as typhoons and crop-related losses, but this should not reoccur moving forward.

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% growth through a combination of continued premium growth, and investment income. There is potential room for additional upside should Axis avoid years like 2017 in the future, or if it completes a sizable acquisition. Overall Axis looks well positioned for growth and in our view, continues to be well-managed. The company is seeing an earnings trough in 2020 but should rebound quickly into 2021.

We see the dividend growing at about the same rate as earnings and may reach \$2.09 or so in the next five years.

¹ Estimated date

² Estimated date

³ Share count 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/B	73%	85%	78%	95%	90%	99%	94%	113%	111%	106%	80%	95%
Avg. Yld.	2.7%	2.9%	2.9%	2.3%	2.4%	2.3%	2.6%	2.5%	2.9%	2.7%	3.7%	3.1%

The company's price-to-book ratio has moved around significantly as its fortunes have risen and fallen, similar to other insurance companies' valuations. Shares are trading at their cheapest valuation since the Great Recession, and we see shares as quite undervalued. We forecast a sizeable tailwind to total returns from the valuation going forward as the price-to-book ratio moves back in line with its historical averages, closer to 95% from today's level of 80%.

As a result of an increasing valuation, we see the dividend payment falling as a percentage of the share price, decreasing the current yield from 3.7% to 3.1% over time. That yield would be near its historical high 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.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
Payout	19%	---	28%	19%	21%	30%	32%	---	82%	60%	---	42%

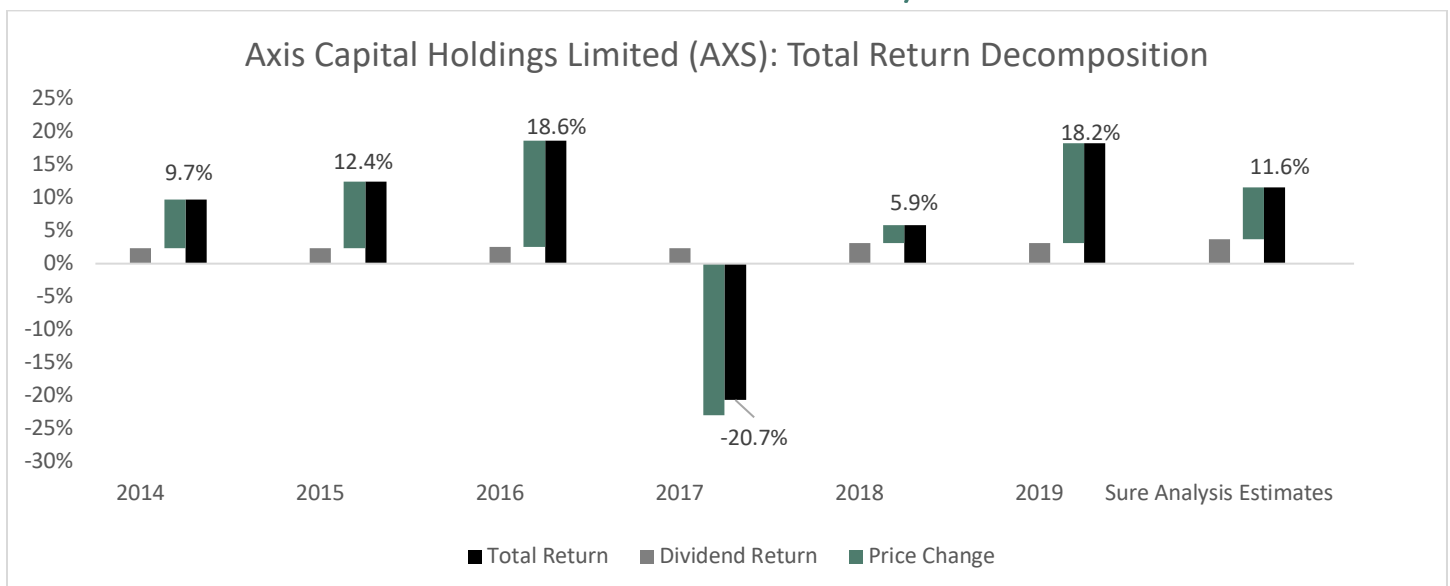
Axis' payout ratio is only about one-third of operating earnings in normalized years, so we find the dividend to be reasonably safe.

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 undervalued and offering investors total annual return potential of 11.6% in the coming years. Axis' book value-per-share growth of 5% should be helped by a tailwind from the valuation. We see Axis as a very attractive pick in the current environment despite its exposure to the current COVID-19-related economic weakness. The yield is high, and the valuation is still favorable, so we are maintaining our buy rating on the stock.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Revenue	3567	3846	3897	4170	4451	4233	4127	4442	5120	5185
SG&A Exp.	450	459	561	575	622	597	603	579	627	635
D&A Exp.	14	17	14	23	25	26	25	31	10	---
Net Profit	857	46	547	727	811	642	513	-369	43	323
Net Margin	24.0%	1.2%	14.0%	17.4%	18.2%	15.2%	12.4%	-8.3%	0.8%	6.2%
Free Cash Flow	1188	1190	1121	1097	862	791	407	259	11	---
Income Tax	39	15	3	7	26	3	6	-8	-29	24

Balance Sheet Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Total Assets	16446	17806	18852	19635	19956	19982	20814	24760	24133	25604
Cash & Equivalents	930	982	760	923	922	988	1039	949	1233	1241
Acc. Receivable	2,921	3,184	3,339	3,619	3,735	4,064	4,648	6,351	6,789	7,277
Goodwill & Int.	103	100	97	90	89	87	85	567	379	342
Total Liabilities	10821	12362	13073	13767	14076	14115	14541	19419	19102	20060
Accounts Payable	165	207	271	234	249	356	493	899	1,339	1,349
Long-Term Debt	994	995	995	996	991	992	993	1,377	1,342	1,808
Total Equity	5,125	4,944	5,277	5,190	5,193	5,239	5,146	4,566	4,255	4,769
D/E Ratio	0.18	0.18	0.17	0.17	0.17	0.17	0.16	0.26	0.27	0.33

Profitability & Per Share Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Return on Assets	5.4%	0.3%	3.0%	3.8%	4.1%	3.2%	2.5%	-1.6%	0.2%	1.3%
Return on Equity	16.9%	0.9%	10.7%	13.9%	15.6%	12.3%	9.9%	-7.6%	1.0%	7.2%
ROIC	13.6%	0.7%	8.3%	10.7%	11.8%	9.3%	7.3%	-5.3%	0.7%	4.7%
Shares Out.	117	131	122	112	101	96	86	84	84	84
Revenue/Share	26.19	30.02	31.52	36.16	42.10	42.48	45.08	52.81	60.94	61.39
FCF/Share	8.72	9.29	9.06	9.51	8.16	7.94	4.44	3.08	0.13	---

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

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