



Axis Capital Holdings Limited (AXS)

Updated November 24th, 2020 by Josh Arnold

Key Metrics

Current Price:	\$52	5 Year CAGR Estimate:	7.9%	Market Cap:	\$4.4 B
Fair Value Price:	\$52	5 Year Growth Estimate:	5.0%	Ex-Dividend Date:	12/30/20 ¹
% Fair Value:	100%	5 Year Valuation Multiple Estimate:	0.0%	Dividend Payment Date:	01/15/21 ²
Dividend Yield:	3.2%	5 Year Price Target	\$66	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 \$4.4 billion and more than \$4.3 billion in annual revenue. Axis also has an impressive 18-year streak of dividend increases.

Axis reported third quarter earnings on October 27th, with results coming in better than expected on the top and bottom lines. Total revenue came to \$1.25 billion, down -3% year-over-year, but \$349 million better than expected.

Gross premiums written fell by \$75 million, or -5%, to \$1.3 billion. The decline was due to a -23% drop, or \$116 million, in the reinsurance segment, which was partially offset by an increase in the insurance segment of \$41 million, or 5%, from the same period last year.

Net premiums written declined by \$40 million, or -5%, to \$0.8 billion, with a decrease of \$68 million in reinsurance offset partially by an increase of \$28 million in the insurance segment.

The company's combined ratio was up 5.1% to 114.5%, so Axis produced an operating loss once again. Excluding weather-related losses and catastrophe losses, the current accident year ratio was down -5.2% to 92.4%. However, Axis remains beholden to events out of its control, and it continues to produce operating losses.

Book value moved down fractionally during the quarter, and we expect just under \$55 in book value for the year, which we use to value the stock.

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	\$54.75	\$69.88
EPS	\$4.60	-\$0.90	\$3.41	\$5.49	\$5.32	\$4.02	\$4.48	-\$3.15	\$1.92	\$2.70	-\$1.00	\$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, as well as thus far in 2020. 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 with regular frequency.

Axis 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. 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

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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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.

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%	95%	95%
Avg. Yld.	2.7%	2.9%	2.9%	2.3%	2.4%	2.3%	2.6%	2.5%	2.9%	2.7%	3.2%	3.2%

The company's price-to-book ratio has moved around significantly as its fortunes have risen and fallen, similar to other insurance companies' valuations. The stock has moved higher, bringing the valuation in line with our fair value estimate. We therefore expect no impact on total returns from the valuation.

Given this, and the fact that we see earnings and the dividend moving in tandem, the yield is likely to remain near where it is today, in the low-3% area.

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%

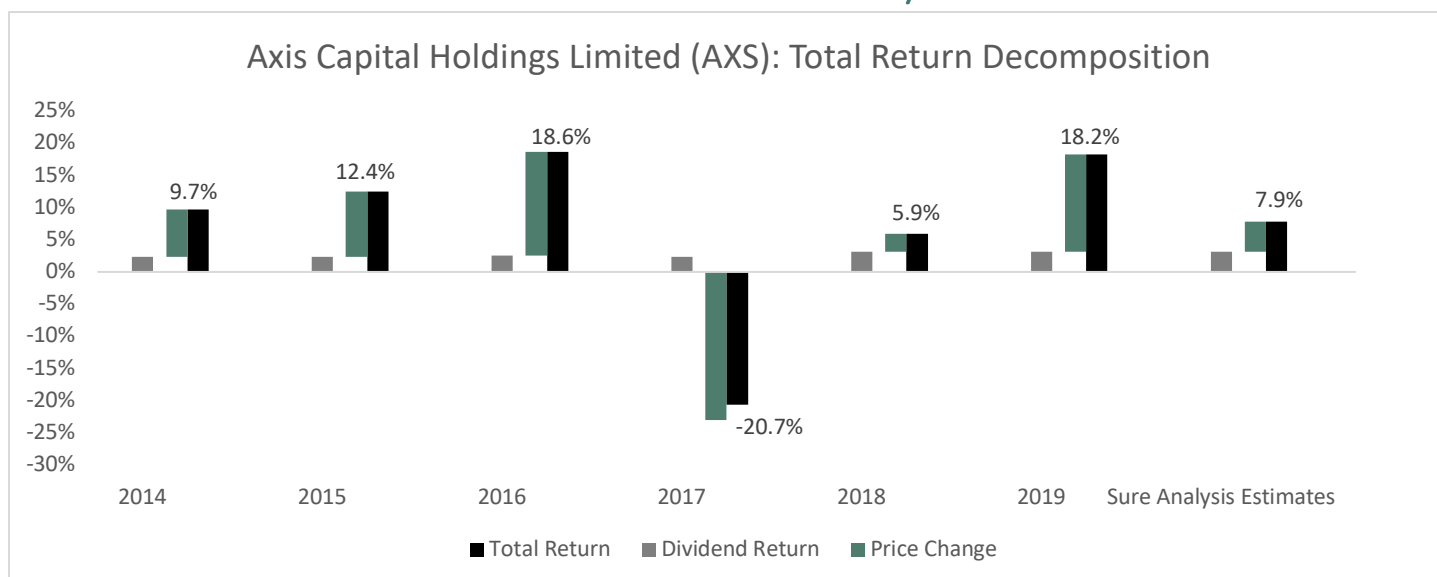
Axis' payout ratio is only about 40% of operating earnings in normalized years, so we find the dividend to be reasonably safe, even with the volatility the stock has shown.

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 7.9% in the coming years. Axis' book value-per-share growth of 5% will drive returns, as well as the yield. While we think Axis is well managed, its returns have been very volatile, and the yield is much lower now that the stock has moved back to fair value. As a result, we are moving Axis from buy to 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	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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