



Axis Capital Holdings Limited (AXS)

Updated August 1st, 2021, by Josh Arnold

Key Metrics

Current Price:	\$51	5 Year CAGR Estimate:	6.6%	Market Cap:	\$4.3 B
Fair Value Price:	\$53	5 Year Growth Estimate:	3.0%	Ex-Dividend Date:	09/30/21 ¹
% Fair Value:	97%	5 Year Valuation Multiple Estimate:	0.7%	Dividend Payment Date:	10/15/21
Dividend Yield:	3.3%	5 Year Price Target	\$61	Years Of Dividend Growth:	19
Dividend Risk Score:	B	Retirement Suitability Score:	A	Last Dividend Increase:	2.4%

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 \$4.3 billion and about \$4.8 billion in annual revenue. Axis also has an impressive 19-year streak of dividend increases.

Axis reported second quarter earnings on July 27th, 2021, and results were much better than expected on both the top and bottom lines. Total revenue was up almost 12% year-over-year to \$1.34 billion in the second quarter. Gross premiums written were up \$225 million, or 13%, to \$1.9 billion. On a constant currency basis, the gain was 12%, or \$204 million. The insurance segment was up 22%, or \$231 million, which was partially offset by a decline of \$6 million, or 1%, in the smaller reinsurance segment.

On a net basis, premiums written were up \$148 million, or 14%, to \$1.2 billion. On a constant currency basis, net written premiums rose 12%, or \$129 million. The gain was due to a \$110 million, or 18%, gain in the insurance segment, while the reinsurance segment posted a \$38 million, or 8%, gain.

Pre-tax catastrophe and weather-related losses, net of reinsurance, were \$29 million, or 2.5 points. This was down from \$36 million, or 3.5 points, in the comparable period last year. The company noted its reserve for COVID-19 losses remains steady at \$360 million. Axis said its current accident year combined ratio, excluding catastrophe and weather-related losses improved 2.7 points year-over-year.

Operating income was \$171 million in Q2, or \$2.00 per diluted common share. Book value ended the quarter at \$55.50 per share, an increase of \$2.47, or 4.7%, year-over-year. We've boosted our estimate of earnings-per-share for this year to \$5.10 following the Q2 beat.

Growth on a Per-Share Basis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
BV/S	\$37.79	\$43.23	\$46.32	\$51.50	\$54.54	\$59.54	\$54.91	\$49.72	\$55.79	\$55.09	\$55.50	\$64.34
EPS	-\$0.90	\$3.41	\$5.49	\$5.32	\$4.02	\$4.48	-\$3.15	\$1.92	\$2.70	-\$2.08	\$5.10	\$5.91
DPS	\$0.93	\$0.97	\$1.02	\$1.10	\$1.22	\$1.43	\$1.53	\$1.57	\$1.61	\$1.65	\$1.68	\$1.95
Shares²	131	122	112	101	96	86	84	84	84	84	85	85

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, and especially in 2020. Typical weather/catastrophe losses weighed on 2020, but COVID-19 did as well, which shouldn't be repeated going forward from 2021, and Q2 results showed continued improvement.

Axis benefits from higher interest rates as its investment income rises commensurately. We see modest growth going forward of 3% from the current base, however. Axis continues to grow its business organically through prudent risk taking, in addition to further acquisitions. There is potential room for additional upside should Axis avoid years like 2017

¹ Estimated date

² 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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in the future, or if it completes a sizable acquisition. Overall Axis looks well positioned for maintaining its current book value and in our view, continues to be well-managed. However, the fact remains its earnings are largely outside of its control, and the long-term earnings growth outlook is quite murky from here.

We see the dividend growing at a low single digit rate and may reach \$1.95 or so in the next five years.

Valuation Analysis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Now	2026
Avg. P/B	85%	78%	95%	90%	99%	94%	113%	111%	106%	85%	92%	95%
Avg. Yld.	2.9%	2.9%	2.3%	2.4%	2.3%	2.6%	2.5%	2.9%	2.7%	3.5%	3.3%	3.3%

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 pulled back meaningfully since our last update, and shares are now trading below our estimate of fair value, and with a 3.3% dividend yield. We therefore see a small tailwind to total returns from the valuation in the coming years.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
Payout	---	28%	19%	21%	30%	32%	---	82%	60%	---	33%	33%

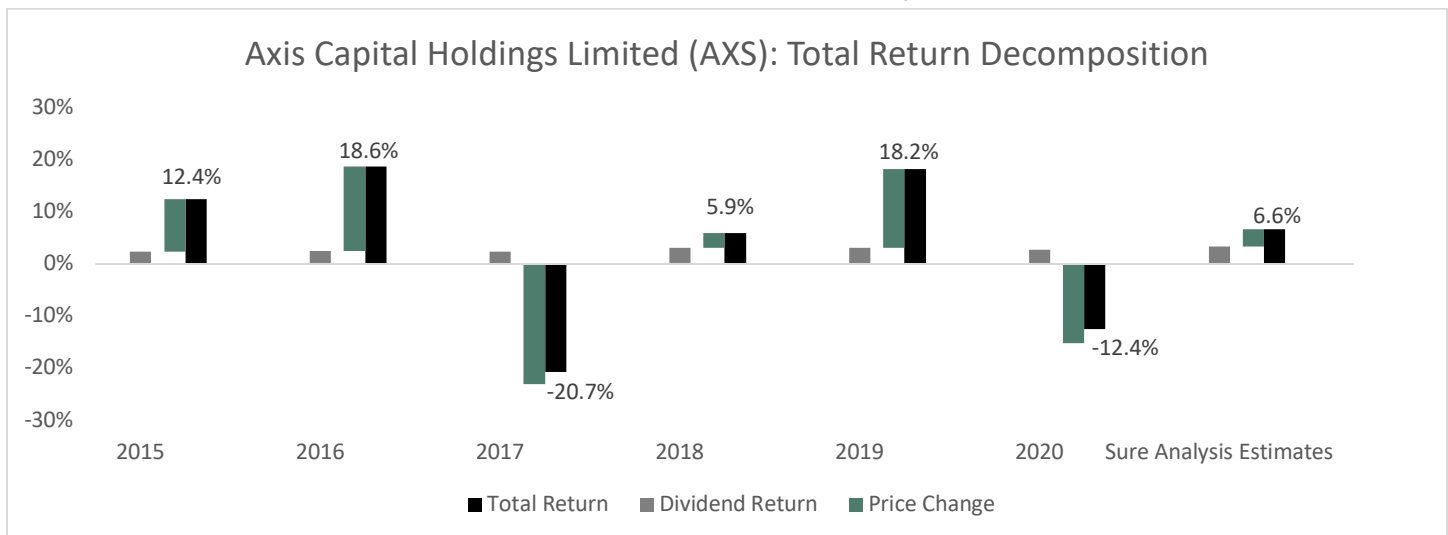
Axis' payout ratio is only about one-third of earnings, so we find the dividend to be reasonably safe, even with the volatility the stock has shown. Importantly, management has proven willing and able to prioritize dividend increases over the past two decades, and we don't see that changing.

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 slightly undervalued now and offering investors total annual return potential of 6.6% in the coming years. We see very limited growth from 2021 levels given the company's history of large, unexpected losses on events like the pandemic, typhoons, etc. We still believe Axis is well managed but note that its earnings and book value growth are largely out of its control. With total return prospects improving from our last update, we are upgrading Axis to hold.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Revenue	3846	3897	4170	4451	4233	4127	4442	5120	5185	4761
SG&A Exp.	459	561	575	622	597	603	579	627	635	580
D&A Exp.	17	14	23	25	26	25	31	10	75	---
Net Profit	46	547	727	811	642	513	-369	43	323	-120
Net Margin	1.2%	14.0%	17.4%	18.2%	15.2%	12.4%	-8.3%	0.8%	6.2%	-2.5%
Free Cash Flow	1190	1121	1097	862	791	407	259	11	199	---
Income Tax	15	3	7	26	3	6	-8	-29	24	-12

Balance Sheet Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Total Assets	17806	18852	19635	19956	19982	20814	24760	24133	25604	25878
Cash & Equivalents	982	760	923	922	988	1039	949	1233	1241	903
Acc. Receivable	3,184	3,339	3,619	3,735	4,064	4,648	6,351	6,789	7,277	7669
Goodwill & Int.	100	97	90	89	87	85	567	379	342	320
Total Liabilities	12362	13073	13767	14076	14115	14541	19419	19102	20060	20582
Accounts Payable	207	271	234	249	356	493	899	1,339	1,349	1092
Long-Term Debt	995	995	996	991	992	993	1,377	1,342	1,808	1310
Total Equity	4,944	5,277	5,190	5,193	5,239	5,146	4,566	4,255	4,769	4746
D/E Ratio	0.18	0.17	0.17	0.17	0.17	0.16	0.26	0.27	0.33	0.25

Profitability & Per Share Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Return on Assets	0.3%	3.0%	3.8%	4.1%	3.2%	2.5%	-1.6%	0.2%	1.3%	-0.5%
Return on Equity	0.9%	10.7%	13.9%	15.6%	12.3%	9.9%	-7.6%	1.0%	7.2%	-2.5%
ROIC	0.7%	8.3%	10.7%	11.8%	9.3%	7.3%	-5.3%	0.7%	4.7%	-1.7%
Shares Out.	131	122	112	101	96	86	84	84	84	84
Revenue/Share	30.02	31.52	36.16	42.10	42.48	45.08	52.81	60.94	61.39	56.50
FCF/Share	9.29	9.06	9.51	8.16	7.94	4.44	3.08	0.13	2.36	---

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

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