Chubb Ltd. (CB)

Updated November 6th, 2021 by Jonathan Weber

Key Metrics

Current Price:	$193	**5 Year CAGR Estimate:**	1.5%	**Market Cap:**	$82B
Fair Value Price:	$148	**5 Year Growth Estimate:**	5.0%	**Ex-Dividend Date:**	12/21/21[1]
% Fair Value:	130%	**5 Year Valuation Multiple Estimate:**	-5.2%	**Dividend Payment Date:**	01/12/22[2]
Dividend Yield:	1.7%	**5 Year Price Target**	$189	**Years Of Dividend Growth:**	28
Dividend Risk Score:	A	**Retirement Suitability Score:**	B	**Last Dividend Increase:**	2.6%

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 third quarter earnings results on October 26. The company reported that its revenues totaled $10 billion during the quarter, which was 14% more than the revenues that Chubb generated during the previous year's quarter. Net written premiums were up 15% year-over-year in Chubb's P&C segment, which was in line with growth recorded in the previous quarter. Chubb was able to generate net investment income of $940 million during the quarter, which was up 5% from the previous year's quarter, although that was down slightly on a sequential basis.

Chubb generated earnings-per-share of $2.64 during the third quarter, which was easily ahead of what the analyst community had forecasted. Chubb's solid profitability during the quarter can be explained by a very healthy combined ratio, despite some natural catastrophes that impacted Chubb's catastrophe losses. It is expected that, thanks to some premium growth and tailwinds from declining catastrophe losses, Chubb's profits will be strong during the fourth quarter as well, which should help the company in generating new record profits compared to the last decade. Chubb's book value was up considerably during the period, ending the quarter at $137.70.

Growth on a Per-Share Basis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
EPS	$6.96	$7.66	$9.34	$9.80	$9.77	$10.11	$8.02	$9.45	$10.11	$7.31	***$12.20***	***$15.60***
BVPS	$74.1	$81.5	$85.6	$90.0	$89.8	$103.6	$110.3	$109.6	$122.4	$131.9	***$141.0***	***$180.0***
DPS	$1.50	$1.94	$2.14	$2.56	$2.64	$2.72	$2.80	$2.90	$3.00	$3.09	***$3.20***	***$4.18***
Shares[3]	331	338	337	329	325	466	464	463	456	453	***450***	***440***

Chubb does not have a very strong earnings growth track record. The company's earnings-per-share in fiscal 2019 were just ~20% higher than the equivalent figure in 2009, which equates to an earnings-per-share growth rate of just 1-2% 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 5% growth rate in per-share book value is feasible for Chubb. In 2018 Chubb's book value per share declined due to mark-to-market losses, but book value started to rise again in 2019 and hit a new record level in 2020, despite the pandemic. Further growth is expected during the current year.

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[1] Estimated date

[2] Estimated date

[3] In Millions

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Valuation Analysis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Now	2026
Avg. P/E	9.3	9.5	9.8	10.6	11.2	12.2	17.7	13.7	15.4	15.4	***15.8***	***12.1***
Avg. P/B	0.88	0.92	1.07	1.15	1.22	1.19	1.29	1.17	1.27	1.17	***1.37***	***1.05***
Avg. Yld.	2.3%	2.6%	2.3%	2.5%	2.4%	2.2%	2.0%	2.3%	1.9%	2.0%	***1.7%***	***2.2%***

Chubb's shares have become less expensive between 2017 and 2020, but they rallied considerably in 2021 so far. Chubb's share price is now well above at pre-crisis levels, and Chubb's price-to-book multiple has risen to almost 1.4, which we deem relatively expensive. We think that multiple compression could result in considerable total return headwinds for Chubb going forward.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
Payout	21.6%	25.3%	22.9%	26.1%	27.0%	26.9%	34.9%	30.7%	29.7%	42.3%	***26.2%***	***26.8%***

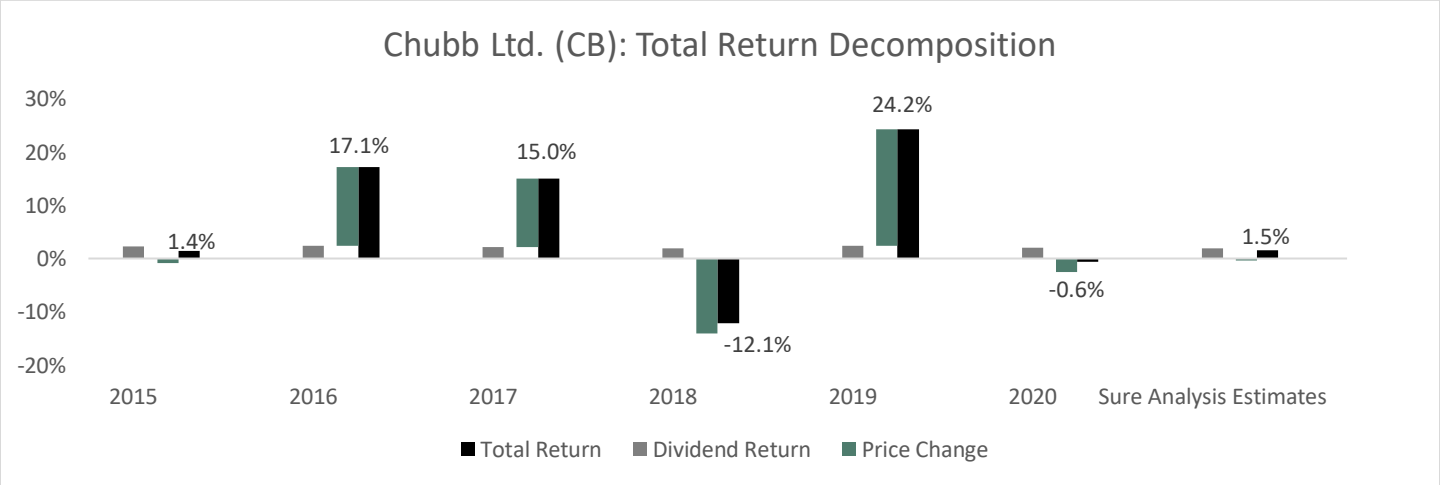
Chubb's profits can vary from year to year, depending on the catastrophe losses and the performance of Chubb's investments during that individual year. The company nevertheless was easily able to cover its dividend payments with its net profits during each year of the last decade. The dividend payout ratio, which is less than 30% based on our estimates for fiscal 2021, 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 and scale 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 a lot of consistent earnings growth in the past, but the company managed to grow its book value reliably, even during the Great Recession. Chubb is a lower-risk stock, and the company was able to weather the current coronavirus crisis without too much harm – in fact, book value rose to a new record level in 2020. Shares thus appeal to income investors looking for a reduced-risk investment. The total return outlook is not really compelling, however, which is why we rate Chubb's stock a sell at the current price.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Revenue	16,834	17,936	19,261	19,171	18,987	31,469	32,243	32,717	34,186	35,994
SG&A Exp.	2,068	2,096	2,211	2,245	2,270	3,081	2,833	2,886	3,030	2,979
D&A Exp.				-	171	1,578	260	339	305	
Net Profit	1,540	2,706	3,758	2,853	2,834	4,135	3,861	3,962	4,454	3,533
Net Margin	9.1%	15.1%	19.5%	14.9%	14.9%	13.1%	12.0%	12.1%	13.0%	9.8%
Free Cash Flow	3,470	3,995	4,022	4,496	3,864	5,292	4,503	5,480	6,342	
Income Tax	502	270	480	634	462	815	(139)	695	795	629

Balance Sheet Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Total Assets ($B)	87,321	92,545	94,510	98,248	102,306	159,786	167,022	167,771	176,943	190,774
Cash & Equivalents	614	615	579	655	1,775	985	728	1,247	1,537	1,747
Acc. Receivable	17,025	16,466	16,471	17,635	16,896	22,729	24,552	26,270	25,735	26,072
Goodwill & Int.	5,475	5,589	5,940	6,190	6,078	22,450	22,380	21,709	21,665	21,211
Total Liab. ($B)	62,989	65,014	65,685	68,661	73,171	111,511	115,850	117,459	121,612	131,333
Accounts Payable	8,440	8,869	8,438	9,821	10,475	14,254	15,413	16,909	17,957	
Long-Term Debt	4,920	5,070	6,017	4,816	9,696	13,418	12,877	12,904	15,166	-
Total Equity	24,332	27,531	28,825	29,587	29,135	48,275	51,172	50,312	55,331	59,441
D/E Ratio	0.20	0.18	0.21	0.16	0.33	0.28	0.25	0.26	0.27	-

Profitability & Per Share Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Return on Assets	1.8%	3.0%	4.0%	3.0%	2.8%	3.2%	2.4%	2.4%	2.6%	1.9%
Return on Equity	6.5%	10.4%	13.3%	9.8%	9.7%	10.7%	7.8%	7.8%	8.4%	6.2%
ROIC	5.4%	8.7%	11.1%	8.2%	7.7%	8.2%	6.1%	6.2%	6.7%	5.4%
Shares Out.	331	338	337	329	325	466	464	463	456	453
Revenue/Share	49.40	52.33	55.97	56.55	57.74	67.54	68.43	70.09	74.49	79.39
FCF/Share	10.18	11.66	11.69	13.26	11.75	11.36	9.56	11.74	13.82	

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

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