



Axis Capital Holdings Limited (AXS)

Updated February 2nd, 2022, by Josh Arnold

Key Metrics

Current Price:	\$57	5 Year CAGR Estimate:	7.1%	Market Cap:	\$4.8 B
Fair Value Price:	\$56	5 Year Growth Estimate:	5.0%	Ex-Dividend Date:	03/31/22 ¹
% Fair Value:	103%	5 Year Valuation Multiple Estimate:	-0.5%	Dividend Payment Date:	04/15/22
Dividend Yield:	3.0%	5 Year Price Target	\$71	Years Of Dividend Growth:	19
Dividend Risk Score:	A	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 \$4.8 billion and about \$5.3 billion in annual revenue. Axis also has an impressive 19-year streak of dividend increases.

Axis reported fourth quarter and full-year earnings on January 26th, 2022, with results coming in better than expected for both revenue and profits. Gross premiums written were up 16%, or \$214 million, to \$1.6 billion. The insurance segment once again led the way, producing \$211 million of the \$214 million increase. The reinsurance segment was nearly flat year-over-year.

On a net basis, premiums written were up \$162 million, or 21%, to \$947 million. The insurance segment was responsible for \$138 million of the increase, with the balance from reinsurance. Operating income was \$182 million in Q4, well ahead of an operating loss of \$16 million in the year-ago period. For the year, operating income was \$436 million, up sharply from an operating loss of \$174 million in 2020.

We forecast book value at \$58.50 by year-end 2022, representing another modest increase from 2021. We also forecast earnings as strong at \$6 per share. Axis also authorized a \$100 million share repurchase program, running through 2022.

Growth on a Per-Share Basis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
BV/S	\$43.23	\$46.32	\$51.50	\$54.54	\$59.54	\$54.91	\$49.72	\$55.79	\$55.09	\$57.34	\$58.50	\$74.66
EPS	\$3.41	\$5.49	\$5.32	\$4.02	\$4.48	-\$3.15	\$1.92	\$2.70	-\$2.08	\$5.12	\$6.00	\$7.66
DPS	\$0.97	\$1.02	\$1.10	\$1.22	\$1.43	\$1.53	\$1.57	\$1.61	\$1.65	\$1.69	\$1.72	\$1.99
Shares²	122	112	101	96	86	84	84	84	84	85	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 2022.

Axis benefits from higher interest rates as its investment income rises commensurately. We forecast 5% growth going forward from the current base. 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 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 murky from here.

We see the dividend growing at a low single digit rate and may reach \$1.99 or so in the next five years.

¹ Estimated date

² Share count in millions

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Valuation Analysis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Now	2027
Avg. P/B	78%	95%	90%	99%	94%	113%	111%	106%	85%	89%	97%	95%
Avg. Yld.	2.9%	2.3%	2.4%	2.3%	2.6%	2.5%	2.9%	2.7%	3.5%	3.3%	3.0%	2.8%

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 is up since our last update, and shares are now trading ahead our estimate of fair value, and with a 3% dividend yield. We therefore forecast a very small headwind to total returns from the valuation in the coming years.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Payout	28%	19%	21%	30%	32%	---	82%	60%	---	33%	29%	26%

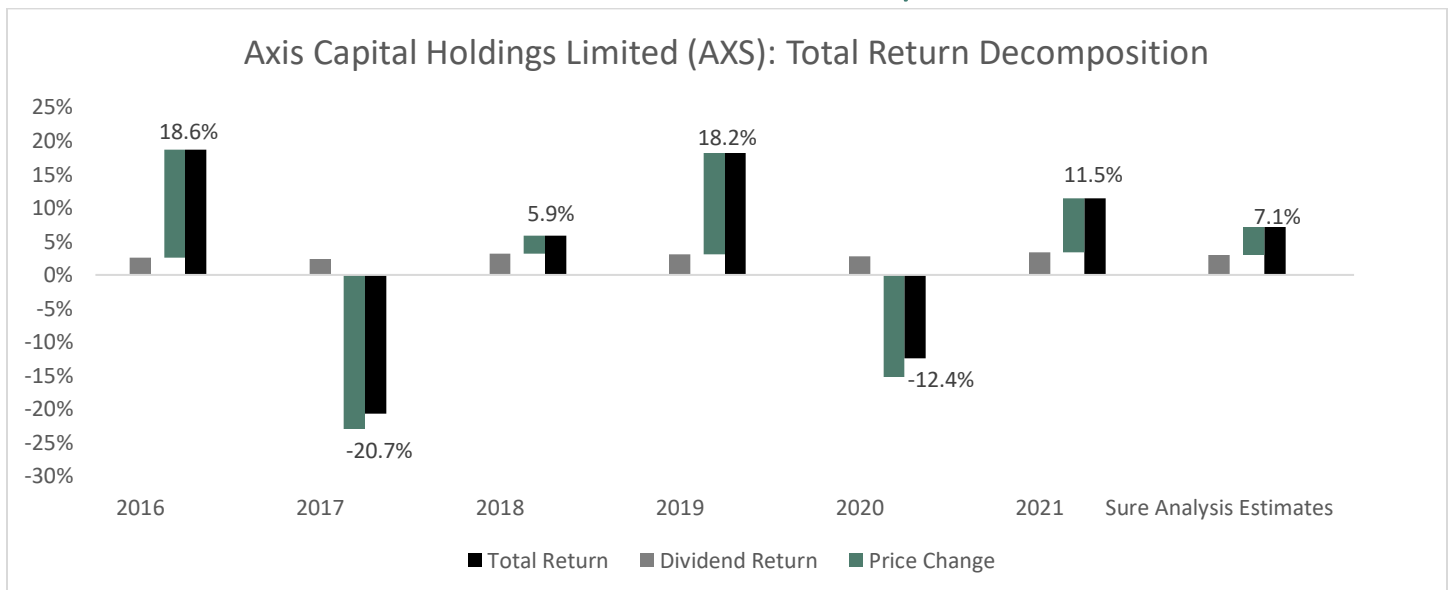
Axis' payout ratio is only 29% of earnings, so we find the dividend to be reasonably safe, even with the volatility the stock has shown. Importantly, management has proven willing and able to prioritize dividend increases over the past two decades, and we don't see that changing. We note that Axis routinely produces full-year losses from an earnings perspective due to catastrophes and other losses but has managed to continue to fund the dividend with the balance sheet in those cases. For this reason, the payout ratio is somewhat less important.

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 overvalued and offering investors total annual return potential of 7.1% 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 about the same from our last update, we are reiterating Axis at a hold rating.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Revenue	3897	4170	4451	4233	4127	4442	5120	5185	4761	5,321
SG&A Exp.	561	575	622	597	603	579	627	635	580	663
D&A Exp.	14	23	25	26	25	31	10	75	66	---
Net Profit	547	727	811	642	513	-369	43	323	-120	619
Net Margin	14.0%	17.4%	18.2%	15.2%	12.4%	-8.3%	0.8%	6.2%	-2.5%	11.6%
Free Cash Flow	1121	1097	862	791	407	259	11	199	344	---
Income Tax	3	7	26	3	6	-8	-29	24	-12	62

Balance Sheet Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Total Assets	18852	19635	19956	19982	20814	24760	24133	25604	25878	27369
Cash & Equivalents	760	923	922	988	1039	949	1233	1241	903	845
Acc. Receivable	3,339	3,619	3,735	4,064	4,648	6,351	6,789	7,277	7669	8283
Goodwill & Int.	97	90	89	87	85	567	379	342	324	310
Total Liabilities	13073	13767	14076	14115	14541	19419	19102	20060	20582	21958
Accounts Payable	271	234	249	356	493	899	1,339	1,349	1092	1325
Long-Term Debt	995	996	991	992	993	1,377	1,342	1,808	1310	1311
Total Equity	5,277	5,190	5,193	5,239	5,146	4,566	4,255	4,769	4746	4861
LTD/E Ratio	0.17	0.17	0.17	0.17	0.16	0.26	0.27	0.33	0.25	0.24

Profitability & Per Share Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Return on Assets	3.0%	3.8%	4.1%	3.2%	2.5%	-1.6%	0.2%	1.3%	-0.5%	2.3%
Return on Equity	10.7%	13.9%	15.6%	12.3%	9.9%	-7.6%	1.0%	7.2%	-2.5%	12.9%
ROIC	8.3%	10.7%	11.8%	9.3%	7.3%	-5.3%	0.7%	4.7%	-1.7%	9.3%
Shares Out.	122	112	101	96	86	84	84	84	84	85
Revenue/Share	31.52	36.16	42.10	42.48	45.08	52.81	60.94	61.39	56.50	62.39
FCF/Share	9.06	9.51	8.16	7.94	4.44	3.08	0.13	2.36	4.08	---

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

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