



# Chubb Ltd. (CB)

Updated May 27<sup>th</sup>, 2022 by Jonathan Weber

## Key Metrics

|                             |       |                                            |       |                                  |                       |
|-----------------------------|-------|--------------------------------------------|-------|----------------------------------|-----------------------|
| <b>Current Price:</b>       | \$208 | <b>5 Year CAGR Estimate:</b>               | 1.8%  | <b>Market Cap:</b>               | \$88 B                |
| <b>Fair Value Price:</b>    | \$163 | <b>5 Year Growth Estimate:</b>             | 5.0%  | <b>Ex-Dividend Date:</b>         | 06/17/22 <sup>1</sup> |
| <b>% Fair Value:</b>        | 127%  | <b>5 Year Valuation Multiple Estimate:</b> | -4.7% | <b>Dividend Payment Date:</b>    | 07/04/22 <sup>2</sup> |
| <b>Dividend Yield:</b>      | 1.6%  | <b>5 Year Price Target</b>                 | \$208 | <b>Years Of Dividend Growth:</b> | 29                    |
| <b>Dividend Risk Score:</b> | A     | <b>Retirement Suitability Score:</b>       | B     | <b>Rating:</b>                   | Sell                  |

## 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 first quarter earnings results on April 26. The company reported that its revenues totaled \$8.8 billion during the quarter, which was 6% more than the revenues that Chubb generated during the previous year's quarter. Net written premiums were up 8% year-over-year in Chubb's P&C segment at constant currency rates, which was slightly weaker than the growth recorded in the previous quarter. Chubb was able to generate net investment income of \$900 million during the quarter, which was flat on a sequential basis.

Chubb generated earnings-per-share of \$3.82 during the first 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 disasters that impacted Chubb's catastrophe losses. Thanks to written premium growth and tailwinds from share repurchases, Chubb's profits could be strong in the coming quarters as well, unless the company feels an impact from above-average catastrophe losses, which generally aren't predicable. Chubb's book value was down during the period, mainly due to mark-to-market losses, ending the quarter at \$133.80.

## Growth on a Per-Share Basis

| Year                      | 2012   | 2013   | 2014   | 2015   | 2016    | 2017    | 2018    | 2019    | 2020    | 2021    | 2022           | 2027           |
|---------------------------|--------|--------|--------|--------|---------|---------|---------|---------|---------|---------|----------------|----------------|
| <b>EPS</b>                | \$7.66 | \$9.34 | \$9.80 | \$9.77 | \$10.11 | \$8.02  | \$9.45  | \$10.11 | \$7.31  | \$12.56 | <b>\$15.00</b> | <b>\$19.10</b> |
| <b>BVPS</b>               | \$81.5 | \$85.6 | \$90.0 | \$89.8 | \$103.6 | \$110.3 | \$109.6 | \$122.4 | \$131.9 | \$140.0 | <b>\$142.0</b> | <b>\$181.2</b> |
| <b>DPS</b>                | \$1.94 | \$2.14 | \$2.56 | \$2.64 | \$2.72  | \$2.80  | \$2.90  | \$3.00  | \$3.09  | \$3.18  | <b>\$3.32</b>  | <b>\$4.04</b>  |
| <b>Shares<sup>3</sup></b> | 338    | 337    | 329    | 325    | 466     | 464     | 463     | 456     | 453     | 443     | <b>435</b>     | <b>420</b>     |

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 cyclicity 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 new record levels in both 2020 and 2021, despite the pandemic. We forecast a small book value increase for 2022.

<sup>1</sup> Estimated date

<sup>2</sup> Estimated date

<sup>3</sup> In Millions

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## Valuation Analysis

| Year      | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | Now         | 2027        |
|-----------|------|------|------|------|------|------|------|------|------|------|-------------|-------------|
| Avg. P/E  | 9.5  | 9.8  | 10.6 | 11.2 | 12.2 | 17.7 | 13.7 | 15.4 | 15.4 | 15.3 | <b>13.9</b> | <b>11.0</b> |
| Avg. P/B  | 0.92 | 1.07 | 1.15 | 1.22 | 1.19 | 1.29 | 1.17 | 1.27 | 1.17 | 1.37 | <b>1.46</b> | <b>1.15</b> |
| Avg. Yld. | 2.6% | 2.3% | 2.5% | 2.4% | 2.2% | 2.0% | 2.3% | 1.9% | 2.0% | 1.7% | <b>1.6%</b> | <b>1.9%</b> |

Chubb's shares have become less expensive between 2017 and 2020 on a price-to-book basis, but they rallied considerably in 2021 and 2022. Chubb's share price is now well above pre-crisis levels, and Chubb's price-to-book multiple has risen to more than 1.4, which we deem quite expensive. We think that multiple compression will result in total return headwinds for Chubb going forward.

## Safety, Quality, Competitive Advantage, & Recession Resiliency

| Year   | 2012  | 2013  | 2014  | 2015  | 2016  | 2017  | 2018  | 2019  | 2020  | 2021  | 2022         | 2027         |
|--------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|--------------|--------------|
| Payout | 25.3% | 22.9% | 26.1% | 27.0% | 26.9% | 34.9% | 30.7% | 29.7% | 42.3% | 25.3% | <b>22.1%</b> | <b>21.2%</b> |

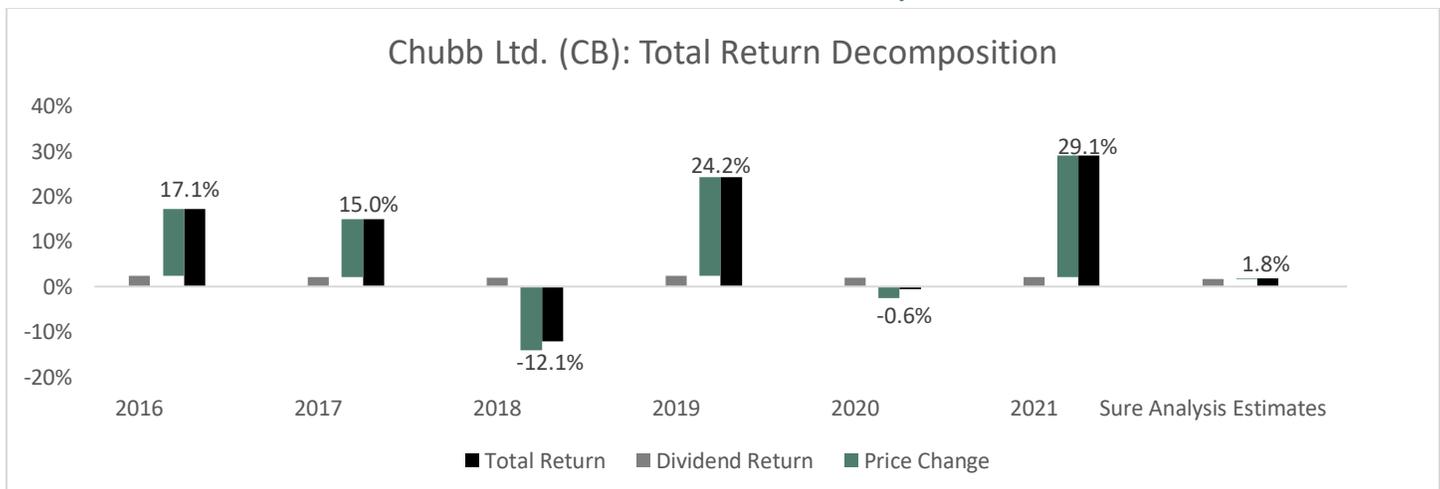
Chubb's profits can vary from year to year, depending on the catastrophe losses and the performance of Chubb's investments during that individual year. The company nevertheless was easily able to cover its dividend payments with its net profits during each year of the last decade. The dividend payout ratio, which is only about 20% 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 coronavirus crisis without a lot of harm – in fact, book value rose to a new record level in 2020 and 2021. Shares thus appeal to income investors looking for a reduced-risk investment. The total return outlook is not 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                  | 2012   | 2013   | 2014   | 2015   | 2016   | 2017   | 2018   | 2019   | 2020   | 2021   |
|-----------------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| <b>Revenue</b>        | 17,936 | 19,261 | 19,171 | 18,987 | 31,469 | 32,243 | 32,717 | 34,186 | 35,994 | 40,963 |
| <b>SG&amp;A Exp.</b>  | 2,096  | 2,211  | 2,245  | 2,270  | 3,081  | 2,833  | 2,886  | 3,030  | 2,979  | 3,136  |
| <b>D&amp;A Exp.</b>   |        |        | -      | 171    | 1,578  | 260    | 339    | 305    | 290    | 287    |
| <b>Net Profit</b>     | 2,706  | 3,758  | 2,853  | 2,834  | 4,135  | 3,861  | 3,962  | 4,454  | 3,533  | 8,539  |
| <b>Net Margin</b>     | 15.1%  | 19.5%  | 14.9%  | 14.9%  | 13.1%  | 12.0%  | 12.1%  | 13.0%  | 9.8%   | 20.8%  |
| <b>Free Cash Flow</b> | 3,995  | 4,022  | 4,496  | 3,864  | 5,292  | 4,503  | 5,480  | 6,342  | 9,785  | 11,149 |
| <b>Income Tax</b>     | 270    | 480    | 634    | 462    | 815    | (139)  | 695    | 795    | 629    | 1,277  |

## Balance Sheet Metrics

| Year                          | 2012   | 2013   | 2014   | 2015   | 2016   | 2017   | 2018   | 2019   | 2020   | 2021   |
|-------------------------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| <b>Total Assets (\$B)</b>     | 92.5   | 94.5   | 98.2   | 102.3  | 159.8  | 167.0  | 167.8  | 176.9  | 190.8  | 200.1  |
| <b>Cash &amp; Equivalents</b> | 615    | 579    | 655    | 1,775  | 985    | 728    | 1,247  | 1,537  | 1,747  | 1,659  |
| <b>Acc. Receivable</b>        | 16,466 | 16,471 | 17,635 | 16,896 | 22,729 | 24,552 | 26,270 | 25,735 | 26,278 | 28,901 |
| <b>Goodwill &amp; Int.</b>    | 5,589  | 5,940  | 6,190  | 6,078  | 22,450 | 22,380 | 21,709 | 21,665 | 21,474 | 20,904 |
| <b>Total Liab. (\$B)</b>      | 65.01  | 65.69  | 68.66  | 73.17  | 111.51 | 115.85 | 117.46 | 121.61 | 131.33 | 140.34 |
| <b>Accounts Payable</b>       | 8,869  | 8,438  | 9,821  | 10,475 | 14,254 | 15,413 | 16,909 | 18,398 | 20,760 | 22,247 |
| <b>Long-Term Debt</b>         | 4,761  | 5,708  | 4,507  | 9,389  | 13,110 | 12,569 | 12,596 | 14,858 | 14,948 | 16,168 |
| <b>Total Equity</b>           | 27,531 | 28,825 | 29,587 | 29,135 | 48,275 | 51,172 | 50,312 | 55,331 | 59,441 | 59,714 |
| <b>LTD/E Ratio</b>            | 0.17   | 0.20   | 0.15   | 0.32   | 0.27   | 0.25   | 0.25   | 0.27   | 0.25   | 0.27   |

## Profitability & Per Share Metrics

| Year                    | 2012  | 2013  | 2014  | 2015  | 2016  | 2017  | 2018  | 2019  | 2020  | 2021  |
|-------------------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| <b>Return on Assets</b> | 3.0%  | 4.0%  | 3.0%  | 2.8%  | 3.2%  | 2.4%  | 2.4%  | 2.6%  | 1.9%  | 4.4%  |
| <b>Return on Equity</b> | 10.4% | 13.3% | 9.8%  | 9.7%  | 10.7% | 7.8%  | 7.8%  | 8.4%  | 6.2%  | 14.3% |
| <b>ROIC</b>             | 8.8%  | 11.2% | 8.3%  | 7.8%  | 8.3%  | 6.2%  | 6.3%  | 6.7%  | 4.9%  | 11.4% |
| <b>Shares Out.</b>      | 338   | 337   | 329   | 325   | 466   | 464   | 463   | 456   | 453   | 443   |
| <b>Revenue/Share</b>    | 52.33 | 55.97 | 56.55 | 57.74 | 67.54 | 68.43 | 70.09 | 74.49 | 79.38 | 92.43 |
| <b>FCF/Share</b>        | 11.66 | 11.69 | 13.26 | 11.75 | 11.36 | 9.56  | 11.74 | 13.82 | 21.58 | 25.16 |

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

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