



# Axis Capital Holdings Limited (AXS)

Updated November 1<sup>st</sup>, 2022, by Josh Arnold

## Key Metrics

<b>Current Price:</b>	\$55	<b>5 Year CAGR Estimate:</b>	5.5%	<b>Market Cap:</b>	\$4.5 B
<b>Fair Value Price:</b>	\$43	<b>5 Year Growth Estimate:</b>	8.0%	<b>Ex-Dividend Date:</b>	12/29/22 <sup>1</sup>
<b>% Fair Value:</b>	129%	<b>5 Year Valuation Multiple Estimate:</b>	-5.0%	<b>Dividend Payment Date:</b>	01/15/23
<b>Dividend Yield:</b>	3.1%	<b>5 Year Price Target</b>	\$63	<b>Years Of Dividend Growth:</b>	19
<b>Dividend Risk Score:</b>	A	<b>Retirement Suitability Score:</b>	A	<b>Rating:</b>	Hold

## 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 just over half of total revenue. It offers a broad range of risk transfer products for a diverse base of customers and has a market capitalization of \$4.5 billion and about \$5.2 billion in annual revenue. Axis also has an impressive 19-year streak of dividend increases.

Axis reported third quarter earnings on October 26<sup>th</sup>, 2022, and results were weaker than expected on both the top and bottom lines. Adjusted earnings-per-share was three cents, which was lower than the seven cents expected. Net written premiums, which is a form of revenue measurement for an insurer, came to \$1.04 billion, down 22% year-over-year, and missing estimates by \$40 million.

For the nine month period, earnings were \$152 million, down from \$391 million a year ago.

Operating income for the third quarter was \$3 million, up from \$1 million in last year's Q3.

The company's fixed income portfolio book yield was 2.9%. Market yield was 5.5% as of the end of the quarter.

Gross premiums written were up \$61 million, or 4%, to \$1.7 billion. The insurance segment was up 12%, while the reinsurance segment saw a decline of 17%. On a constant current basis, the gain would have been \$90 million, or 5%.

Net premiums written were up \$40 million, or 4%, to \$1.0 billion. The gain was 10% for the insurance segment, partially offset by a 10% decline in the smaller reinsurance segment.

## Growth on a Per-Share Basis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
<b>BV/S</b>	\$43.23	\$46.32	\$51.50	\$54.54	\$59.54	\$54.91	\$49.72	\$55.79	\$55.09	\$57.34	<b>\$44.81</b>	<b>\$65.84</b>
<b>EPS</b>	\$3.41	\$5.49	\$5.32	\$4.02	\$4.48	-\$3.15	\$1.92	\$2.70	-\$2.08	\$5.12	<b>\$5.51</b>	<b>\$8.10</b>
<b>DPS</b>	\$0.97	\$1.02	\$1.10	\$1.22	\$1.43	\$1.53	\$1.57	\$1.61	\$1.65	\$1.69	<b>\$1.72</b>	<b>\$1.99</b>
<b>Shares<sup>2</sup></b>	122	112	101	96	86	84	84	84	84	85	<b>85</b>	<b>85</b>

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 8% growth going forward from the current base, which is quite low for 2022, and we expect a swift rebound. 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,

<sup>1</sup> Estimated date

<sup>2</sup> Share count in millions

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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.

## 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%	123%	95%
Avg. Yld.	2.9%	2.3%	2.4%	2.3%	2.6%	2.5%	2.9%	2.7%	3.5%	3.3%	3.1%	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. Shares are now trading further from our estimate of fair value at 123% of book value, and with a 3.1% dividend yield. We therefore forecast a modest 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%	31%	25%

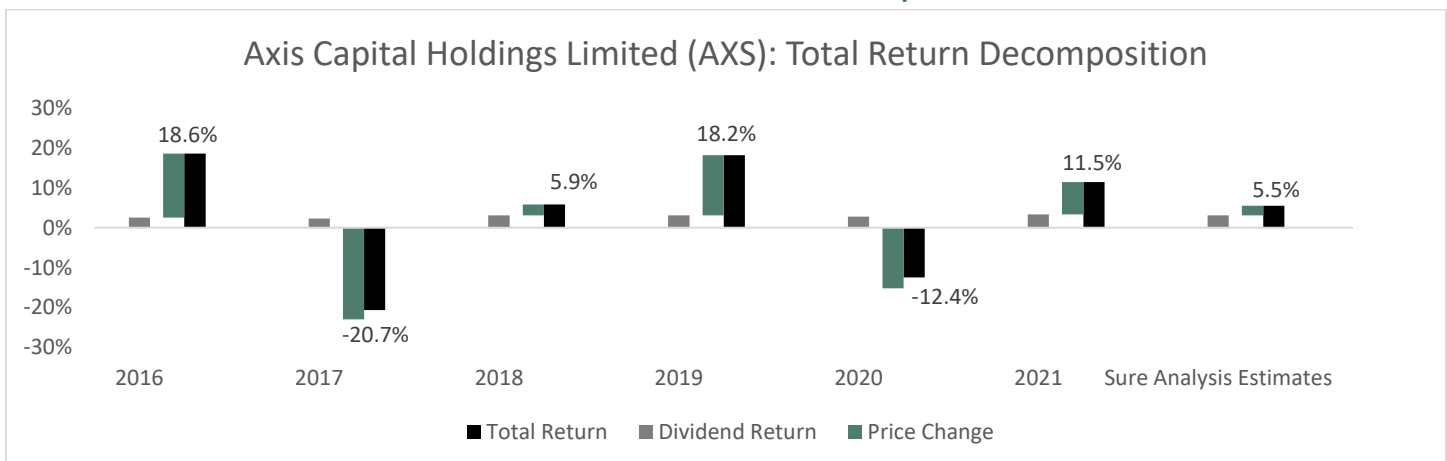
Axis' payout ratio is only 31% of earnings, so we find the dividend to be reasonably safe, even with the volatility the stock has shown. Importantly, management has proven willing and able to prioritize dividend increases over the past two decades, and we don't see that changing. We note that Axis routinely 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 somewhat overvalued and offering investors total annual return potential of 5.5% 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 8% growth and 3.1% yield being somewhat offset by a 5% valuation headwind, we're reiterating the stock 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
<b>Revenue</b>	3897	4170	4451	4233	4127	4442	5120	5185	4761	5,321
<b>SG&amp;A Exp.</b>	561	575	622	597	603	579	627	635	580	663
<b>D&amp;A Exp.</b>	14	23	25	26	25	31	10	75	66	67
<b>Net Profit</b>	547	727	811	642	513	-369	43	323	-120	619
<b>Net Margin</b>	14.0%	17.4%	18.2%	15.2%	12.4%	-8.3%	0.8%	6.2%	-2.5%	11.6%
<b>Free Cash Flow</b>	1121	1097	862	791	407	259	11	199	344	1115
<b>Income Tax</b>	3	7	26	3	6	-8	-29	24	-12	62

## Balance Sheet Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
<b>Total Assets</b>	18852	19635	19956	19982	20814	24760	24133	25604	25878	27369
<b>Cash &amp; Equivalents</b>	760	923	922	988	1039	949	1233	1241	903	845
<b>Acc. Receivable</b>	3,339	3,619	3,735	4,064	4,648	6,351	6,789	7,277	7669	8283
<b>Goodwill &amp; Int.</b>	97	90	89	87	85	567	379	342	324	310
<b>Total Liabilities</b>	13073	13767	14076	14115	14541	19419	19102	20060	20582	21958
<b>Accounts Payable</b>	271	234	249	356	493	899	1,339	1,349	1092	1325
<b>Long-Term Debt</b>	995	996	991	992	993	1,377	1,342	1,808	1310	1311
<b>Total Equity</b>	5,277	5,190	5,193	5,239	5,146	4,566	4,255	4,769	4746	4861
<b>LTD/E Ratio</b>	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
<b>Return on Assets</b>	3.0%	3.8%	4.1%	3.2%	2.5%	-1.6%	0.2%	1.3%	-0.5%	2.3%
<b>Return on Equity</b>	10.7%	13.9%	15.6%	12.3%	9.9%	-7.6%	1.0%	7.2%	-2.5%	12.9%
<b>ROIC</b>	8.3%	10.7%	11.8%	9.3%	7.3%	-5.3%	0.7%	4.7%	-1.7%	9.3%
<b>Shares Out.</b>	122	112	101	96	86	84	84	84	84	85
<b>Revenue/Share</b>	31.52	36.16	42.10	42.48	45.08	52.81	60.94	61.39	56.50	62.39
<b>FCF/Share</b>	9.06	9.51	8.16	7.94	4.44	3.08	0.13	2.36	4.08	13.07

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

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