



Chubb Ltd. (CB)

Updated November 8th, 2022 by Jonathan Weber

Key Metrics

Current Price:	\$212	5 Year CAGR Estimate:	-2.3%	Market Cap:	\$87B
Fair Value Price:	\$133	5 Year Growth Estimate:	5.0%	Ex-Dividend Date:	12/17/22 ¹
% Fair Value:	159%	5 Year Valuation Multiple Estimate:	-8.8%	Dividend Payment Date:	01/04/23 ²
Dividend Yield:	1.6%	5 Year Price Target	\$170	Years Of Dividend Growth:	29
Dividend Risk Score:	A	Retirement Suitability Score:	B	Rating:	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 third quarter earnings results on October 25. The company reported that its net premium earned totaled \$11.5 billion during the quarter, which was 15% more than the NPE that Chubb generated during the previous year's quarter. Net written premiums were up 11% year-over-year in Chubb's P&C segment at constant currency rates, which was slightly stronger than the growth recorded in the previous quarter. Chubb was able to generate net investment income of \$980 million during the quarter, which was up 13% year over year.

Chubb generated earnings-per-share of \$3.17 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 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 \$114.80.

Growth on a Per-Share Basis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
EPS	\$7.66	\$9.34	\$9.80	\$9.77	\$10.11	\$8.02	\$9.45	\$10.11	\$7.31	\$12.56	\$15.40	\$19.65
BVPS	\$81.5	\$85.6	\$90.0	\$89.8	\$103.6	\$110.3	\$109.6	\$122.4	\$131.9	\$140.0	\$116.0	\$148.1
DPS	\$1.94	\$2.14	\$2.56	\$2.64	\$2.72	\$2.80	\$2.90	\$3.00	\$3.09	\$3.18	\$3.32	\$4.04
Shares³	338	337	329	325	466	464	463	456	453	443	435	420

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 book value decline for 2022.

¹ Estimated date

² Estimated date

³ 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	13.8	11.0
Avg. P/B	0.92	1.07	1.15	1.22	1.19	1.29	1.17	1.27	1.17	1.37	1.83	1.15
Avg. Yld.	2.6%	2.3%	2.5%	2.4%	2.2%	2.0%	2.3%	1.9%	2.0%	1.7%	1.6%	2.4%

Chubb's shares have become less expensive between 2017 and 2020 on a price-to-book basis, but the valuation expanded considerably in 2021 and 2022. Chubb's valuation is now well above pre-crisis levels as Chubb's price-to-book multiple has risen to more than 1.8, 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%	21.6%	20.6%

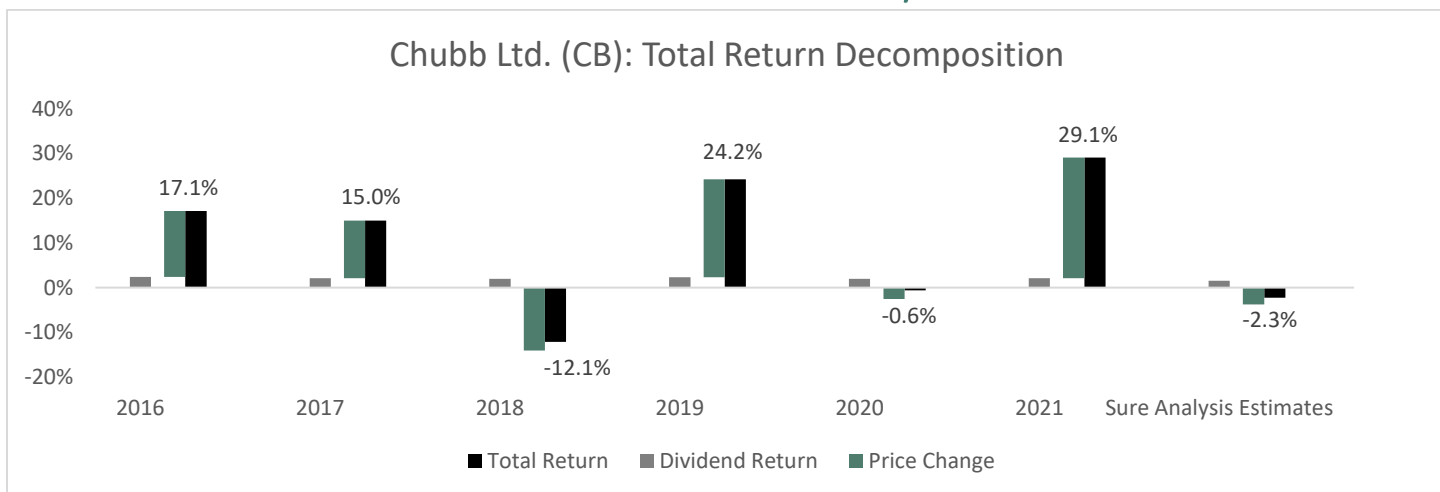
Chubb's profits can vary from year to year, depending on the catastrophe losses and the performance of Chubb's investments during that individual year. The company nevertheless was easily able to cover its dividend payments with its net profits during each year of the last decade. The dividend payout ratio, which is only just over 20% based on our estimates for fiscal 2022, 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 when bought at the right valuation, 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. Due to mark-to-market losses, book value will decline this year, however. Due to a high valuation, the total return outlook is not compelling, 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
Revenue	17,936	19,261	19,171	18,987	31,469	32,243	32,717	34,186	35,994	40,963
SG&A Exp.	2,096	2,211	2,245	2,270	3,081	2,833	2,886	3,030	2,979	3,136
D&A Exp.			-	171	1,578	260	339	305	290	287
Net Profit	2,706	3,758	2,853	2,834	4,135	3,861	3,962	4,454	3,533	8,539
Net Margin	15.1%	19.5%	14.9%	14.9%	13.1%	12.0%	12.1%	13.0%	9.8%	20.8%
Free Cash Flow	3,995	4,022	4,496	3,864	5,292	4,503	5,480	6,342	9,785	11,149
Income Tax	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
Total Assets (\$B)	92.5	94.5	98.2	102.3	159.8	167.0	167.8	176.9	190.8	200.1
Cash & Equivalents	615	579	655	1,775	985	728	1,247	1,537	1,747	1,659
Acc. Receivable	16,466	16,471	17,635	16,896	22,729	24,552	26,270	25,735	26,278	28,901
Goodwill & Int.	5,589	5,940	6,190	6,078	22,450	22,380	21,709	21,665	21,474	20,904
Total Liab. (\$B)	65.01	65.69	68.66	73.17	111.51	115.85	117.46	121.61	131.33	140.34
Accounts Payable	8,869	8,438	9,821	10,475	14,254	15,413	16,909	18,398	20,760	22,247
Long-Term Debt	4,761	5,708	4,507	9,389	13,110	12,569	12,596	14,858	14,948	16,168
Total Equity	27,531	28,825	29,587	29,135	48,275	51,172	50,312	55,331	59,441	59,714
LTD/E Ratio	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
Return on Assets	3.0%	4.0%	3.0%	2.8%	3.2%	2.4%	2.4%	2.6%	1.9%	4.4%
Return on Equity	10.4%	13.3%	9.8%	9.7%	10.7%	7.8%	7.8%	8.4%	6.2%	14.3%
ROIC	8.8%	11.2%	8.3%	7.8%	8.3%	6.2%	6.3%	6.7%	4.9%	11.4%
Shares Out.	338	337	329	325	466	464	463	456	453	443
Revenue/Share	52.33	55.97	56.55	57.74	67.54	68.43	70.09	74.49	79.38	92.43
FCF/Share	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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