



Axis Capital Holdings Limited (AXS)

Updated August 5th, 2023, by Josh Arnold

Key Metrics

Current Price:	\$56	5 Year CAGR Estimate:	4.8%	Market Cap:	\$4.7 B
Fair Value Price:	\$50	5 Year Growth Estimate:	4.0%	Ex-Dividend Date:	09/29/23 ¹
% Fair Value:	111%	5 Year Valuation Multiple Estimate:	-2.1%	Dividend Payment Date:	10/15/23
Dividend Yield:	3.1%	5 Year Price Target	\$61	Years Of Dividend Growth:	19
Dividend Risk Score:	A	Retirement Suitability Score:	A	Rating:	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 \$4.7 billion and about \$5.6 billion in annual revenue. Axis also has an impressive 19-year streak of dividend increases.

Axis posted second quarter earnings on August 1st, 2023, and results were quite strong once again. The company posted earnings-per-share of \$1.67, while revenue soared 15% year-over-year to \$1.38 billion. Book value ended the quarter at \$50.98, which was up 1.3% from the March quarter. Earnings-per-share share exploded higher from just 32 cents in the comparable period of 2022.

Net income was \$316 million for the first half of the year, up from \$169 million in the first half of last year. Operating income for the second quarter was up from \$149 million to \$191 million.

The company noted its fixed income portfolio yield was 3.9%, up from 2.4% at the end of June 2022. The market yield was 5.9%. Net investment income for the quarter was \$137 million, up from \$92 million a year ago. This was due to higher market yields.

Given the strong performance in Q2, as well as persistently high interest rates, we have boosted our estimate of book value to \$53 at the end of the year. We note book value can be quite volatile for Axis, but strong forecasted earnings and expanding interest income should see book value continue to grow.

Growth on a Per-Share Basis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
BV/S	\$46.32	\$51.50	\$54.54	\$59.54	\$54.91	\$49.72	\$55.79	\$55.09	\$57.34	\$48.31	\$53.00	\$64.48
EPS	\$5.49	\$5.32	\$4.02	\$4.48	-\$3.15	\$1.92	\$2.70	-\$2.08	\$5.12	\$5.81	\$8.50	\$10.34
DPS	\$1.02	\$1.10	\$1.22	\$1.43	\$1.53	\$1.57	\$1.61	\$1.65	\$1.69	\$1.73	\$1.76	\$2.04
Shares²	112	101	96	86	84	84	84	84	85	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 2023.

Axis benefits from higher interest rates as its investment income rises commensurately. We forecast 4% growth going forward from the current base, which was quite low for 2022, and we expect a swift rebound this year. 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,

¹ Estimated date

² 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 \$2.04 or so in the next five years.

Valuation Analysis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Now	2028
Avg. P/B	95%	90%	99%	94%	113%	111%	106%	85%	89%	112%	106%	95%
Avg. Yld.	2.3%	2.4%	2.3%	2.6%	2.5%	2.9%	2.7%	3.5%	3.3%	3.2%	3.1%	3.3%

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 well ahead of fair value at 111% of book value, and with a 3.1% dividend yield. We therefore forecast a meaningful headwind to total returns from the valuation in the coming years given the premium to book value.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	19%	21%	30%	32%	---	82%	60%	---	33%	30%	21%	20%

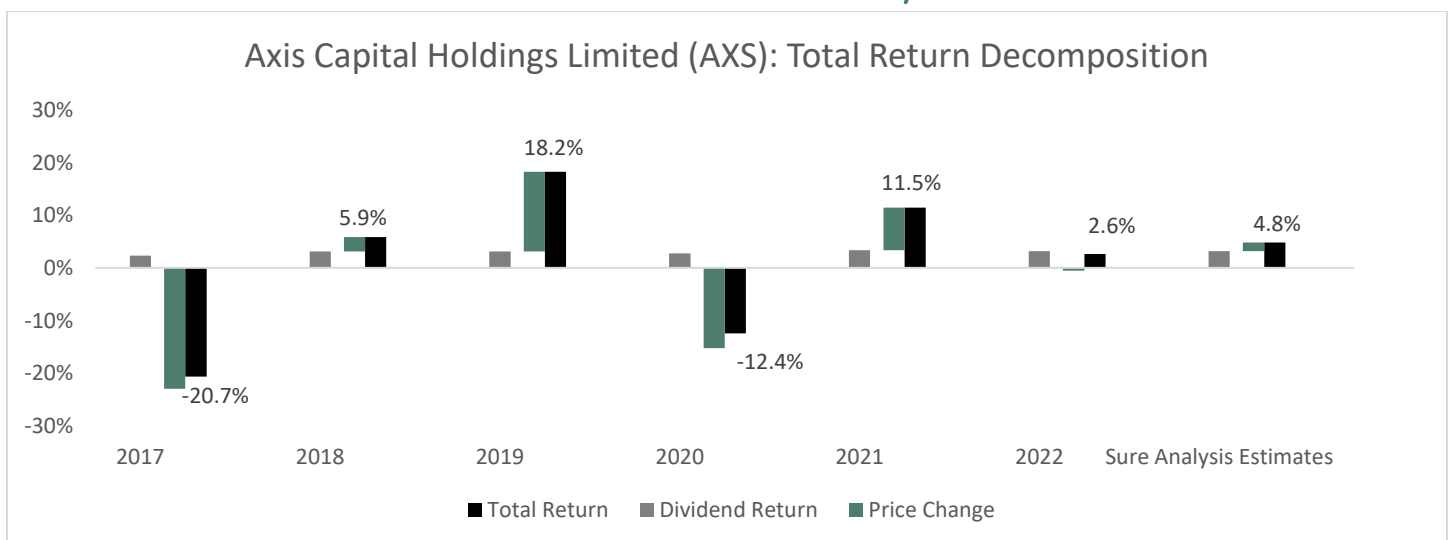
Axis' payout ratio is only 21% of earnings, so we find the dividend to be reasonably safe, even with the volatility the stock has shown. Importantly, management has proven willing and able to prioritize dividend increases over the past two decades, and we don't see that changing. We note that Axis routinely 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 overvalued and offering investors total annual return potential of 4.8% in the coming years. We see a strong rebound in earnings for 2023, barring sizable, unforeseen catastrophe losses for this year. We still believe Axis is well managed but note that its earnings and book value growth are largely out of its control. With 4% growth and 3.1% yield being somewhat offset by a 2.1% valuation headwind, we're reiterating the stock at a hold rating.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Revenue	4170	4451	4233	4127	4442	5120	5185	4761	5321	4,859
SG&A Exp.	575	622	597	603	579	627	635	580	663	680
D&A Exp.	23	25	26	25	31	10	75	66	67	68
Net Profit	727	811	642	513	-369	43	323	-120	619	223
Net Margin	17.4%	18.2%	15.2%	12.4%	-8.3%	0.8%	6.2%	-2.5%	11.6%	4.2%
Free Cash Flow	1097	862	791	407	259	11	199	344	1115	692
Income Tax	7	26	3	6	-8	-29	24	-12	62	22

Balance Sheet Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Total Assets	19635	19956	19982	20814	24760	24133	25604	25878	27369	27596
Cash & Equivalents	923	922	988	1039	949	1233	1241	903	845	751
Acc. Receivable	3,619	3,735	4,064	4,648	6,351	6,789	7,277	7669	8283	9104
Goodwill & Int.	90	89	87	85	567	379	342	324	310	299
Total Liabilities	13767	14076	14115	14541	19419	19102	20060	20582	21958	22956
Accounts Payable	234	249	356	493	899	1,339	1,349	1092	1325	1523
Long-Term Debt	996	991	992	993	1,377	1,342	1,808	1310	1311	13934
Total Equity	5,190	5,193	5,239	5,146	4,566	4,255	4,769	4746	4861	4090
LTD/E Ratio	0.17	0.17	0.17	0.16	0.26	0.27	0.33	0.25	0.24	0.30

Profitability & Per Share Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Return on Assets	3.8%	4.1%	3.2%	2.5%	-1.6%	0.2%	1.3%	-0.5%	2.3%	0.8%
Return on Equity	13.9%	15.6%	12.3%	9.9%	-7.6%	1.0%	7.2%	-2.5%	12.9%	5.0%
ROIC	10.7%	11.8%	9.3%	7.3%	-5.3%	0.7%	4.7%	-1.7%	9.3%	3.5%
Shares Out.	112	101	96	86	84	84	84	84	85	86
Revenue/Share	36.16	42.10	42.48	45.08	52.81	60.94	61.39	56.50	62.39	56.72
FCF/Share	9.51	8.16	7.94	4.44	3.08	0.13	2.36	4.08	13.07	8.08

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

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