



Axis Capital Holdings Limited (AXS)

Updated February 9th, 2024, by Josh Arnold

Key Metrics

Current Price:	\$59	5 Year CAGR Estimate:	6.5%	Market Cap:	\$5 B
Fair Value Price:	\$53	5 Year Growth Estimate:	6.0%	Ex-Dividend Date:	03/29/24 ¹
% Fair Value:	111%	5 Year Valuation Multiple Estimate:	-2.0%	Dividend Payment Date:	04/15/24
Dividend Yield:	3.0%	5 Year Price Target	\$71	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 \$5 billion and about \$5.7 billion in annual revenue. Axis also has an impressive 19-year streak of dividend increases.

Axis posted fourth quarter and full-year earnings on January 31st, 2024, and results capped off a very strong year for the insurer. The company posted charges that were unrelated to operations in Q4, so quarterly results were messy. However, on an adjusted basis, gross written premiums were up 1% to \$1.8 billion. The insurance segment was up 8%, while reinsurance continues to struggle, declining 30%. Net written premiums were down 2%, or 3% on a constant currency basis. Insurance saw a 9% gain, but that was more than offset by a 51% decline in reinsurance.

For the year, underlying operating income came to \$847 million, or \$9.85 per share, close to double the total from 2022. Book value ended the year sharply higher as well, driven by strong gains in profits. Adjusted for dividends, book value would have risen by a very impressive 19% in 2023.

The book yield of fixed maturity securities was 4.2% as of the end of December, up from 3.5% a year ago. The company's market yield on December 31st, 2023 was 5.4%. Axis is seeing steadily rising net investment income as market interest rates remain elevated.

We start the year with earnings and book value rising slightly in 2024 over high levels set in 2023.

Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
BV/S	\$51.50	\$54.54	\$59.54	\$54.91	\$49.72	\$55.79	\$55.09	\$57.34	\$48.31	\$55.26	\$56.00	\$74.94
EPS	\$5.32	\$4.02	\$4.48	-\$3.15	\$1.92	\$2.70	-\$2.08	\$5.12	\$5.81	\$9.85	\$10.00	\$13.38
DPS	\$1.10	\$1.22	\$1.43	\$1.53	\$1.57	\$1.61	\$1.65	\$1.69	\$1.73	\$1.76	\$1.76	\$2.04
Shares²	101	96	86	84	84	84	84	85	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 6% 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	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Now	2029
Avg. P/B	90%	99%	94%	113%	111%	106%	85%	89%	112%	100%	105%	95%
Avg. Yld.	2.4%	2.3%	2.6%	2.5%	2.9%	2.7%	3.5%	3.3%	3.2%	3.2%	3.0%	2.9%

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 trading ahead of fair value at 105% of book value, and with a 3.0% dividend yield. We therefore forecast a modest headwind to total returns from the valuation in the coming years given the premium to book value.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	21%	30%	32%	---	82%	60%	---	33%	30%	18%	18%	15%

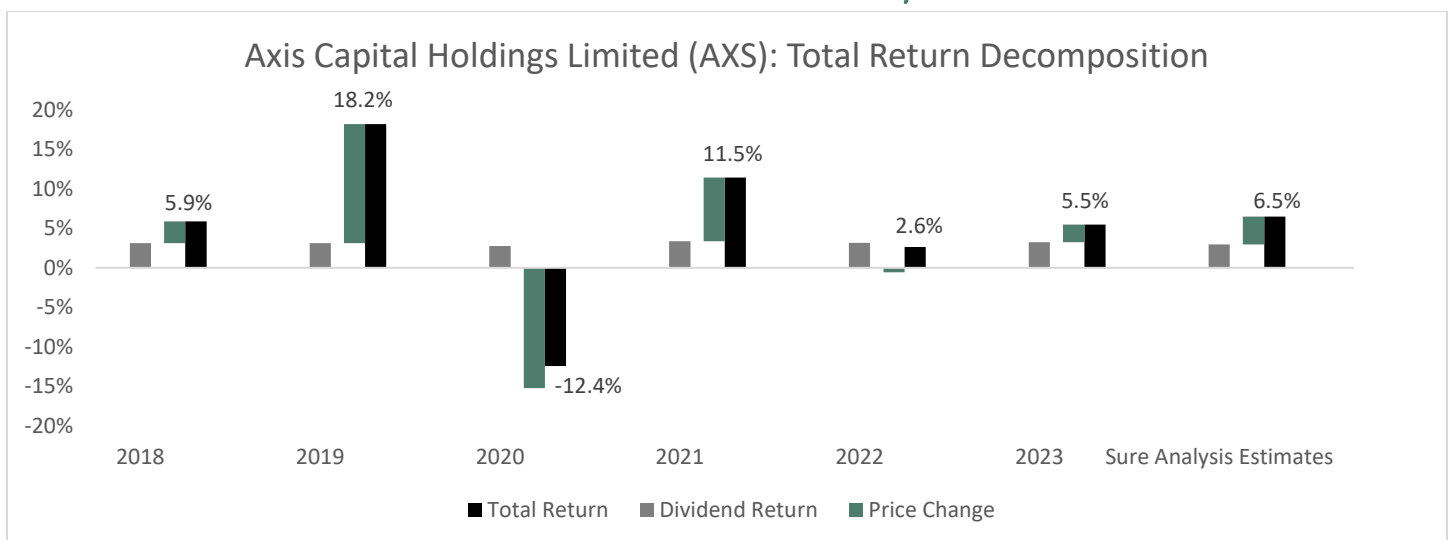
Axis' payout ratio is only 18% of earnings, so we find the dividend to be safe, even with the volatility the stock has shown. Importantly, management has proven willing and able to prioritize dividend increases over the past two decades, and we don't see that changing. We note that Axis routinely produces 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 6.5% in the coming years, down from 7.3% during our last update. We see 2023 earnings as tough to meaningfully top 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 6% growth and 3% yield being somewhat offset by a 2% valuation headwind, we're reiterating the stock at a hold rating.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Revenue	4451	4233	4127	4442	5120	5185	4761	5321	4,859	5,585
SG&A Exp.	622	597	603	579	627	635	580	663	680	684
D&A Exp.	25	26	25	31	10	75	66	67	68	---
Net Profit	811	642	513	-369	43	323	-120	619	223	376
Net Margin	18.2%	15.2%	12.4%	-8.3%	0.8%	6.2%	-2.5%	11.6%	4.2%	6.7%
Free Cash Flow	862	791	407	259	11	199	344	1115	692	---
Income Tax	26	3	6	-8	-29	24	-12	62	22	26

Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Assets	19956	19982	20814	24760	24133	25604	25878	27369	27596	30251
Cash & Equivalents	922	988	1039	949	1233	1241	903	845	751	953
Acc. Receivable	3,735	4,064	4,648	6,351	6,789	7,277	7669	8283	9104	9966
Goodwill & Int.	89	87	85	567	379	342	324	310	299	288
Total Liabilities	14076	14115	14541	19419	19102	20060	20582	21958	22956	24987
Accounts Payable	249	356	493	899	1,339	1,349	1092	1325	1523	1793
Long-Term Debt	991	992	993	1,377	1,342	1,808	1310	1311	13934	1400
Total Equity	5,193	5,239	5,146	4,566	4,255	4,769	4746	4861	4090	4713
LTD/E Ratio	0.17	0.17	0.16	0.26	0.27	0.33	0.25	0.24	0.30	0.27

Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Return on Assets	4.1%	3.2%	2.5%	-1.6%	0.2%	1.3%	-0.5%	2.3%	0.8%	1.3%
Return on Equity	15.6%	12.3%	9.9%	-7.6%	1.0%	7.2%	-2.5%	12.9%	5.0%	7.6%
ROIC	11.8%	9.3%	7.3%	-5.3%	0.7%	4.7%	-1.7%	9.3%	3.5%	5.9%
Shares Out.	101	96	86	84	84	84	84	85	86	86
Revenue/Share	42.10	42.48	45.08	52.81	60.94	61.39	56.50	62.39	56.72	64.94
FCF/Share	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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