

AXIS Capital Holdings (AXS)

\$64.25 (As of 01/31/20)

Price Target (6-12 Months): **\$68.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 02/03/20)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

2-Buy

Zacks Style Scores:

VGM:B

Value: C

Growth: B

Momentum: D

Summary

AXIS Capital earnings of 5 cents per share beat the Zacks Consensus Estimate by 150%. Shares of AXIS have outperformed the industry year to date. It continues to build on its Specialty Insurance, Reinsurance plus Accident and Health to pave the way for long-term growth. It is focused on deploying resources prudently while enhancing efficiencies at the same time. Also, the company has been improving its portfolio mix and underwriting profitability apart from fortifying the casualty and professional lines in the insurance segment. Capital deployment boosts shareholder value. Nevertheless, exposure to cat loss has been denting underwriting results and affecting its combined ratio. Stiff competition in the reinsurance industry, escalating expenses due to higher net losses and loss expenses could restrict margin expansion.

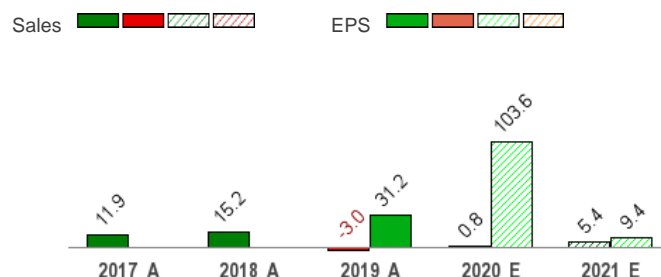
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$67.51 - \$53.64
20 Day Average Volume (sh)	525,918
Market Cap	\$5.4 B
YTD Price Change	8.1%
Beta	0.29
Dividend / Div Yld	\$1.64 / 2.6%
Industry	Insurance - Property and Casualty
Zacks Industry Rank	Top 31% (78 out of 255)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	150.0%
Last Sales Surprise	NA
EPS F1 Est- 4 week change	-0.7%
Expected Report Date	NA
Earnings ESP	0.0%
P/E TTM	25.5
P/E F1	12.5
PEG F1	1.5
P/S TTM	1.0

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021					5,397 E
2020					5,122 E
2019	1,248 A	1,264 A	1,275 A	1,295 A	5,082 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$1.17 E	\$1.16 E	\$0.61 E	\$1.46 E	\$5.61 E
2020	\$1.24 E	\$1.24 E	\$0.94 E	\$1.64 E	\$5.13 E
2019	\$1.24 A	\$1.62 A	-\$0.39 A	\$0.05 A	\$2.52 A

*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 01/31/2020. The reports text is as of 02/03/2020.

Overview

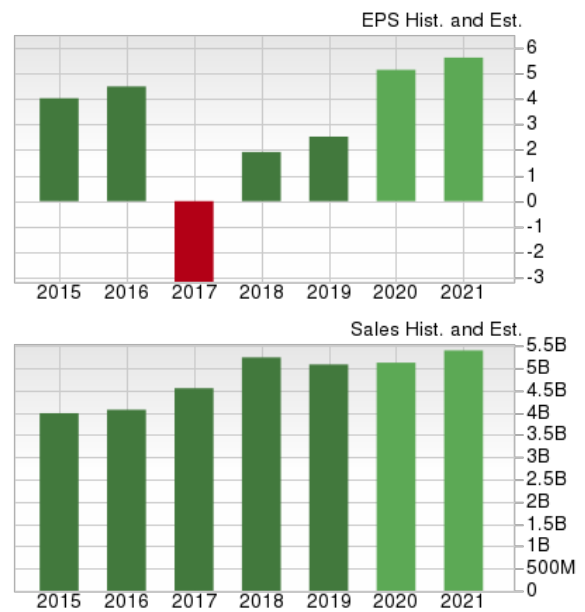
Incorporated on Dec 9, 2002, AXIS Capital Holdings Limited is the Bermuda-based holding company for the AXIS group of companies. AXIS Specialty Bermuda commenced operations on Nov 20, 2001. AXIS Specialty Bermuda and its subsidiaries became wholly owned subsidiaries of AXIS Capital pursuant to an exchange offer consummated on Dec 31, 2002.

The company provides a broad range of specialty insurance and reinsurance solutions to its clients on a worldwide basis, through operating subsidiaries and branch networks based in Bermuda, the United States, Europe, Singapore, Canada, Latin America and the Middle East. The company also maintains marketing offices in Brazil, France and Spain. Its business consists of two distinct global underwriting platforms, AXIS Insurance and AXIS Re.

AXIS Capital has two reportable segments:

The **Insurance (55% of 2019 gross premiums written)** segment offers a diverse portfolio of specialty insurance products to a variety of niche markets on a worldwide basis. Its lines of business include property, marine, Accident and Health, professional lines, aviation, terrorism, credit and political risk, liability, and Discontinued Lines – Novae. Some of its insurance products are also distributed through managing general agents ("MGAs") and managing general underwriters ("MGUs").

The **Reinsurance (45%)** segment writes business on a proportional basis, receiving an agreed percentage of the underlying premium and accepting liability for the same percentage of incurred losses. The segment also writes business on an excess of loss basis, whereby it typically provides an indemnification to the reinsured entity for a portion of losses, both individually and in the aggregate, in excess of a specified individual or aggregate loss deductible. The business is primarily produced through reinsurance brokers worldwide. Its lines of business include Catastrophe, Property, Professional Lines, Credit and Surety, Motor, Liability, Agriculture, Engineering, Marine and Other, Accident and Health and Discontinued Lines – Novae.



Reasons To Buy:

- ▲ The company has been witnessing an increase in its top line over a considerable period of time on the back of higher net premiums earned as well as investment income. However, premium earned and investment income declined 3% year over year in 2019. Nonetheless, the company has undertaken steps to boost growth. In this vein, the company executed portfolio remediation in 2019, and has entered the new year with a stronger book that has less inherent volatility. The company has brought down PMLs, decreased limits, and exited or reduced its participation in underperforming businesses while pushing for more rate across the board. At the same time, it is focused on driving growth in its most attractive lines.

The company is also working with its partners in distribution to use expanding digital capabilities to create new business growth in desirable smaller accounts. With pricing momentum accelerating, it is believed that favorable market conditions will sustain through 2020, driving more lines of business to pricing adequacy and providing with more opportunities to leverage its market position to generate profitable growth.

- ▲ AXIS Capital continues to boost shareholder value through stock buybacks and dividend hikes. With a 2.4% hike in its quarterly common share dividend in the fourth quarter of 2019, the company has been able to approve 15 consecutive dividend raises driven by solid earnings.
 - ▲ AXIS Capital has been witnessing solid investment results, with the metric improving nearly 9% in 2019. Net investment income will continue with its favorable trend, given that the interest rates will stay at current levels, and not be slashed down.
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AXIS Capital continues to build on its Specialty Insurance, Reinsurance plus Accident and Health coupled with improved portfolio mix and effective capital deployment should pave way for growth.

Reasons To Sell:

- ▼ AXIS Capital is highly exposed to losses resulting from natural disasters, man-made catastrophes and other catastrophic events. Underwriting results have thus been affected for years. Catastrophe loss amounted to \$336 million in 2019, down 21.9% year over year. Exposure to catastrophe activities will always be a concern because of the uncertainty of occurrence as well as the magnitude of impact.
- ▼ AXIS Capital has been witnessing rising expenses over the last few years due to higher net losses and loss expenses, general and administrative expenses, higher acquisition costs and an increase in interest expense as well as financing costs, hurting margin. However, in 2019, expenses declined and favored margin expansion. Also, the company stated to be on track to achieve net savings of \$100 million by 2020. We wait to see if the momentum continues.
- ▼ AXIS Capital's return-on-equity (ROE) undermines its growth potential. The company's trailing 12-month ROE of 5.4% is lower than the industry average of 7%, reflecting the company's inefficiency in using shareholders' funds. Increasing competition in the reinsurance industry is weighing on the company's growth and profitability.

AXIS Capital's exposure to cat losses inducing underwriting volatility and higher expenses due to higher net losses and loss expenses weighing on margin expansion are headwinds for the company.

Last Earnings Report

AXIS Capital Q4 Earnings Beat Estimates

AXIS Capital Holdings fourth-quarter 2019 operating income of 5 cents per share, beat the Zacks Consensus Estimate by 150%. In the year-ago quarter, the company had incurred operating loss of \$1.77 per share.

Full-Year Highlights

In 2019, AXIS Capital delivered operating income of \$2.52 per share, which beat the Zacks Consensus Estimate by 0.8%. Also, the bottom line improved 31.9% year over year.

Total operating revenues of \$5.1 billion matched the Zacks Consensus Estimate but declined 3.1% year over year.

Operational Update

Fourth-quarter operating revenues amounted to nearly \$1.29 billion, down 1.8% year over year.

Gross premiums written improved 7.6% year over year to \$1.3 billion, largely driven by 4.4% and 19% increase in Insurance and Reinsurance segments, respectively.

Net investment income increased nearly 4% year over year to nearly \$117.6 million.

Total expenses declined 7.8% year over year to \$1.3 billion, attributable to lower net losses and loss expenses, amortization of value of business acquired, amortization of intangible assets and reorganization expenses.

AXIS Capital incurred underwriting loss of \$49.3 million, narrower than the prior-year quarter's loss of \$194.7 million. Combined ratio improved 1000 basis points (bps) to 107.9%.

Segment Results

Insurance: Gross premiums written improved 4.4% year over year to \$961.6 million owing to strong performance in liability and professional lines, driven by new business and favorable rate changes, partially offset by a decrease in credit and political risk lines due to reduced business opportunities.

Net premiums earned decreased 5.2% year over year to \$559.6 million.

Underwriting income was \$29.7 million against year-ago quarter's loss of \$36.9 million. Combined ratio improved 1140 bps to 94.9%.

Reinsurance: Gross premiums written in the fourth quarter rose 19% year over year to \$299.7 million, primarily attributable to increase in liability, property, and professional lines. These increases were partially offset by decreases in catastrophe lines due to lower reinstatement premiums and accident and health lines due to timing differences.

Net premiums earned dropped 1.9% year over year to \$612 million.

Underwriting loss of \$78.9 million was significantly narrower than the year-ago quarter's loss of \$157.7 million. Combined ratio improved 1050 bps year over year to 113.5%.

Financial Update

AXIS Capital exited the fourth quarter with cash and cash equivalents of \$1.2 billion, up 0.7% over the level at 2018 end.

Book value per share increased 11.7% year over year to \$55.79 as of Dec 31, 2019.

Operating return on equity totaled 0.4% at the end of the fourth quarter compared with (13.2%) in the year-ago period.

Dividend Update

The company announced a dividend of 41 cents per share in the fourth quarter of 2019.

Quarter Ending **12/2019**

Report Date	Jan 29, 2020
Sales Surprise	NA
EPS Surprise	150.00%
Quarterly EPS	0.05
Annual EPS (TTM)	2.52

Recent News

AXIS Insurance Expands Renewable Energy Underwriting Expertise With New Hires – Jan 9, 2020

AXIS Insurance, the insurance business segment of AXIS Capital Holdings Limited has announced the appointments of Sam Walsh as senior underwriter and Mat Pifer as an underwriter in its renewables division. Messrs. Walsh and Pifer will be jointly responsible for underwriting new and renewal, property and liability renewable energy business in North America, including large wind and solar photovoltaic portfolios, as well as battery energy storage risks. They will report to Tom Cain, Head of U.S. Renewable Energy at AXIS.

AXIS Capital Boosts Shareholder Value, Hikes Dividend – Dec 5, 2019

The board of directors of AXIS Capital Holdings Limited recently approved a 2.5% hike in its quarterly dividend to enhance shareholder value. The company will now pay a dividend of 41 cents per share compared with 40 cents paid on Oct 15, 2019. Shareholders of record as of Dec 31, 2019 will receive the increased dividend on Jan 15, 2020.

AXIS Capital Provides Q4 Catastrophe Loss Estimates - Nov 25, 2019

AXIS Capital estimates preliminary pre-tax loss between \$90 million and \$110 million, primarily due to Japanese typhoon Hagibis. The estimated losses comprise net of reinsurance recoveries, retrocessional covers and estimated reinstatement premiums.

Valuation

AXIS Capital shares are up 16.8% over the trailing 12-month period. Over the past year, stocks in the Zacks sub-industry and Finance sector are up 8.8% and 6.3% respectively.

The S&P 500 index are up 17.4% in the past year.

The stock is currently trading at 1.21X trailing 12-month book value, which compares to 1.41X for the Zacks sub-industry, 2.76X for the Zacks sector and 4.4X for the S&P 500 index.

Over the past five years, the stock has traded as high as 1.22X and as low as 0.86X, with a 5-year median of 1.04X. Our Neutral recommendation indicates that the stock will perform worse than the market. Our \$68 price target reflects 1.18X book value.

The table below shows summary valuation data for AXS

Valuation Multiples - AXS					
		Stock	Sub-Industry	Sector	S&P 500
P/B TTM	Current	1.12	1.41	2.76	4.4
	5-Year High	1.22	1.67	2.89	4.54
	5-Year Low	0.86	1.26	1.83	2.85
	5-Year Median	1.04	1.47	2.51	3.62
P/S F12M	Current	1.05	1.67	6.53	3.43
	5-Year High	1.44	11.26	6.61	3.43
	5-Year Low	0.74	1.55	5.39	2.54
	5-Year Median	1.16	1.91	6.04	3

As of 01/31/2020

Industry Analysis Zacks Industry Rank: Top 31% (78 out of 255)



Top Peers

RLI Corp. (RLI)	Outperform
Arch Capital Group Ltd. (ACGL)	Neutral
American Financial Group, Inc. (AFG)	Neutral
Argo Group International Holdings, Ltd. (ARGO)	Neutral
Chubb Limited (CB)	Neutral
Everest Re Group, Ltd. (RE)	Neutral
RenaissanceRe Holdings Ltd. (RNR)	Neutral
Selective Insurance Group, Inc. (SIGI)	Neutral

Industry Comparison Industry: Insurance - Property And Casualty				Industry Peers		
	AXS Neutral	X Industry	S&P 500	ACGL Neutral	ARGO Neutral	SIGI Neutral
VGM Score	B	-	-	B	D	B
Market Cap	5.39 B	1.63 B	23.55 B	17.90 B	2.25 B	3.94 B
# of Analysts	3	2	13	4	3	3
Dividend Yield	2.55%	1.01%	1.81%	0.00%	1.89%	1.39%
Value Score	C	-	-	C	B	C
Cash/Price	0.23	0.18	0.04	0.26	0.27	0.09
EV/EBITDA	22.86	9.38	13.97	15.85	16.34	14.77
PEG Ratio	1.47	1.76	1.97	1.47	NA	2.08
Price/Book (P/B)	1.12	1.19	3.21	1.59	1.19	1.84
Price/Cash Flow (P/CF)	13.07	13.80	13.36	16.87	15.48	14.81
P/E (F1)	12.52	13.88	18.42	14.70	21.05	15.63
Price/Sales (P/S)	1.04	1.04	2.60	2.74	1.19	1.38
Earnings Yield	7.98%	7.12%	5.43%	6.82%	4.76%	6.40%
Debt/Equity	0.33	0.21	0.72	0.26	0.27	0.26
Cash Flow (\$/share)	4.91	3.05	6.92	2.62	4.24	4.47
Growth Score	B	-	-	C	D	C
Hist. EPS Growth (3-5 yrs)	-23.80%	-0.55%	10.68%	8.71%	-5.09%	11.25%
Proj. EPS Growth (F1/F0)	103.57%	11.47%	7.59%	9.77%	123.69%	-3.64%
Curr. Cash Flow Growth	-541.78%	9.94%	10.81%	84.88%	651.83%	11.17%
Hist. Cash Flow Growth (3-5 yrs)	-13.32%	7.23%	8.78%	11.39%	2.81%	13.91%
Current Ratio	0.55	0.44	1.22	0.69	0.54	0.32
Debt/Capital	22.20%	17.79%	42.99%	20.08%	21.46%	20.49%
Net Margin	6.25%	5.43%	11.69%	21.97%	2.72%	9.55%
Return on Equity	5.40%	6.81%	17.33%	10.31%	3.30%	12.96%
Sales/Assets	0.20	0.31	0.55	0.19	0.19	0.33
Proj. Sales Growth (F1/F0)	0.78%	4.72%	4.12%	-4.89%	6.55%	5.11%
Momentum Score	D	-	-	A	D	B
Daily Price Chg	-2.27%	-1.32%	-1.98%	-0.72%	-1.15%	-1.44%
1 Week Price Chg	1.72%	-1.15%	-1.09%	-0.40%	-4.71%	-3.16%
4 Week Price Chg	8.13%	-0.68%	-2.11%	1.75%	-2.03%	1.24%
12 Week Price Chg	7.89%	-0.09%	2.15%	9.14%	-0.11%	-3.20%
52 Week Price Chg	19.98%	5.92%	14.15%	50.46%	-1.71%	8.75%
20 Day Average Volume	525,918	103,990	1,808,632	1,262,410	123,751	201,054
(F1) EPS Est 1 week change	-0.33%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	-0.66%	0.00%	0.00%	0.17%	0.00%	0.95%
(F1) EPS Est 12 week change	-3.43%	0.00%	-0.09%	-0.23%	-19.40%	0.95%
(Q1) EPS Est Mthly Chg	1.37%	0.00%	0.00%	7.35%	0.00%	0.00%

Zacks Style Scores

The Zacks Style Score is as a complementary indicator to the Zacks rating system, giving investors a way to focus on the highest rated stocks that best fit their own stock picking preferences.

Academic research has proven that stocks with the best Value, Growth and Momentum characteristics outperform the market. The Zacks Style Scores rate stocks on each of these individual styles and assigns a rating of A, B, C, D and F. We also produce the VGM Score (V for Value, G for Growth and M for Momentum), which combines the weighted average of the individual Style Scores into one score. This is perfectly suited for those who want their stocks to have the best scores across the board.

Value Score	C
Growth Score	B
Momentum Score	D
VGM Score	B

As an investor, you want to buy stocks with the highest probability of success. That means buying stocks with a Zacks Recommendation of Outperform, which also has a Style Score of an A or a B.

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