

AXIS Capital Holdings (AXS)

\$34.93 (As of 05/01/20)

Price Target (6-12 Months): **\$37.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 02/03/20)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:F

Value: C

Growth: D

Momentum: F

Summary

AXIS Capital 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. Its shares have underperformed the industry year to date. Nevertheless, it continues to deploy capital for boosting shareholder value in forms of buybacks and dividends. However, exposure to cat loss has been denting underwriting results and affecting its combined ratio. Stiff competition in the reinsurance industry, escalating expenses due to increased acquisition costs, and higher net losses and loss expenses can put a strain on margin expansion.

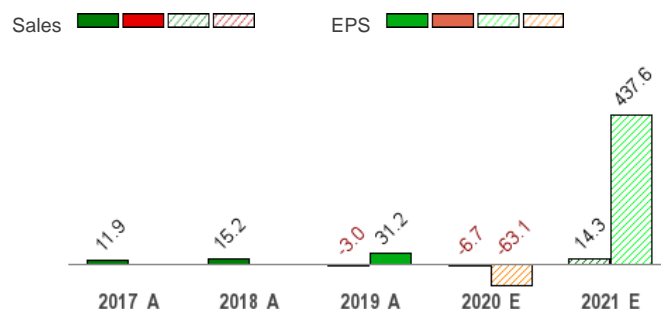
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$67.51 - \$31.82
20 Day Average Volume (sh)	952,771
Market Cap	\$2.9 B
YTD Price Change	-41.2%
Beta	0.61
Dividend / Div Yld	\$1.64 / 4.5%
Industry	Insurance - Property and Casualty
Zacks Industry Rank	Top 49% (123 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	150.0%
Last Sales Surprise	NA
EPS F1 Est- 4 week change	-82.0%
Expected Report Date	05/04/2020
Earnings ESP	0.0%
P/E TTM	13.9
P/E F1	37.6
PEG F1	4.4
P/S TTM	0.6

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021					5,419 E
2020					4,743 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	\$1.45 E	\$1.23 E	\$0.88 E	\$1.45 E	\$5.00 E
2020	-\$1.92 E	\$0.71 E	\$0.77 E	\$1.36 E	\$0.93 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 05/01/2020. The reports text is as of 05/04/2020.

Overview

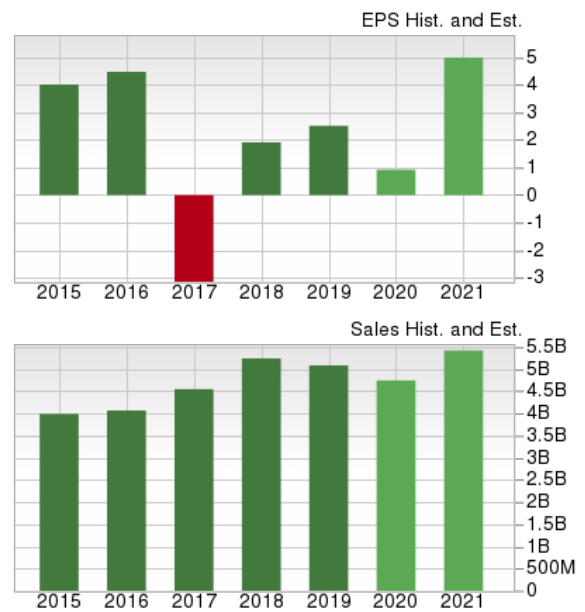
Incorporated on Dec 9, 2002, AXIS Capital Holdings Limited is the Bermuda-based holding company for the AXIS group of companies. AXIS Specialty Bermuda commenced operations on Nov 20, 2001. AXIS Specialty Bermuda and its subsidiaries became wholly owned subsidiaries of AXIS Capital pursuant to an exchange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

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.

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. Its dividend yield is currently 4.7%, way above the industry average of 0.5%.
 - ▲ 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. However, AXIS Capital estimates first quarter 2020 net investment income of \$93 million down, from \$107 million in the year ago quarter, largely attributable to lower hedge fund returns.
 - ▲ The company's long term debt has been increasing over the last few years with debt to capital ratio deteriorating. Long term debt increased 22.7% sequentially at 2019 end with debt to capital increasing to 26.1% from 22.2% at third quarter 2019 end. Also, long-term debt to capital of 26.09% compares unfavorably with the industry's measure of 19.5%. However, the firm's times interest earned ratio has been improving over the years. The improvement in this ratio indicates that the firm will be able to meet current obligations in the near future without any difficulties. At a time when every entity is looking forward to preserve liquidity amid uncertainty as a result of the COVID-19 outbreak, an improving ratio is reassuring for investors. Times interest earned, a measure to identify the company ability to service debt stood at 6% in the fourth quarter, up from the 3% in the third quarter of 2019.
 - ▲ Shares of AXIS Capital have lost 41.2%, wider than the industry's loss of 21.3% year to date. Nevertheless, we believe that the company's strong fundamentals are likely to drive its shares, going forward.
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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 6.4%, 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 Capital Shares Insight of 1Q20 Earnings – Apr 27, 2020

AXIS Capital estimates first quarter 2020 net investment income of \$93 million down, from \$107 million in the year ago quarter, largely attributable to lower hedge fund returns.

Net claims provision is expected to be about \$300 million, pre-tax, for the first quarter related to catastrophe and other weather-related events. This includes about net claims provision of \$235 million, pre-tax, for the COVID-19 pandemic. Other-weather related events of \$65 million, pre-tax, includes regional weather events in the United States, floods in United Kingdom and Australia wildfires.

AXIS Capital estimates to report a full limit loss of \$10 million related to the WHO pandemic swap. The loss is recorded in other insurance related income (loss).

Valuation

AXIS Capital shares are down 41.2% in the year-to-date period and 38.7% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Finance sector are down 21.3% and 26.4% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and sector are down 17% and 22%, respectively.

The S&P 500 index is down 12.1% in the year-to-date period and 3.7% in the past year.

The stock is currently trading at 0.62x trailing 12-month book value, which compares to 1.04x for the Zacks sub-industry, 2.08x for the Zacks sector and 3.75x for the S&P 500 index.

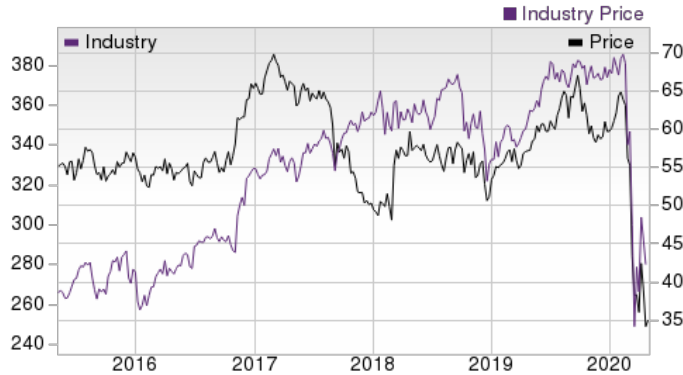
Over the past five years, the stock has traded as high as 1.22x and as low as 0.6x, with a 5-year median of 1.04x. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$37 price target reflects 0.65x book value.

The table below shows summary valuation data for AXIS

Valuation Multiples - AXIS					
		Stock	Sub-Industry	Sector	S&P 500
P/B TTM	Current	0.62	1.04	2.08	3.75
	5-Year High	1.22	1.67	2.90	4.55
	5-Year Low	0.6	0.93	1.71	2.84
	5-Year Median	1.04	1.46	2.53	3.64
P/S F12M	Current	0.59	1.62	4.98	3.19
	5-Year High	1.44	11.26	6.7	3.44
	5-Year Low	0.55	1.55	4.98	2.54
	5-Year Median	1.12	1.88	6.06	3.01
P/E F12M	Current	15.13	21.84	14.86	20.18
	5-Year High	21.66	31.55	16.18	20.18
	5-Year Low	-23.39	21.05	11.24	15.19
	5-Year Median	12.53	25.6	13.94	17.44

As of 05/01/2020

Industry Analysis Zacks Industry Rank: Top 49% (123 out of 253)



Top Peers

Company (Ticker)	Rec	Rank
Arch Capital Group Ltd. (ACGL)	Neutral	4
American Financial Group, Inc. (AFG)	Neutral	3
Chubb Limited (CB)	Neutral	4
Everest Re Group, Ltd. (RE)	Neutral	3
RLI Corp. (RLI)	Neutral	3
RenaissanceRe Holdings Ltd. (RNR)	Neutral	4
Selective Insurance Group, Inc. (SIGI)	Neutral	3
Argo Group International Holdings, Ltd. (ARGO)	Underperform	4

Industry Comparison Industry: Insurance - Property And Casualty				Industry Peers		
	AXS	X Industry	S&P 500	ACGL	ARGO	SIGI
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Underperform	Neutral
Zacks Rank (Short Term)	3	-	-	4	4	3
VGM Score	F	-	-	B	F	A
Market Cap	2.93 B	1.22 B	20.61 B	9.43 B	1.09 B	2.83 B
# of Analysts	2	2	14	3	3	3
Dividend Yield	4.70%	1.26%	2.11%	0.00%	3.93%	1.94%
Value Score	C	-	-	D	D	B
Cash/Price	0.55	0.26	0.06	0.17	0.89	0.10
EV/EBITDA	8.04	5.16	11.87	5.72	12.11	7.65
PEG Ratio	4.42	1.67	2.47	NA	NA	7.01
Price/Book (P/B)	0.61	0.96	2.67	0.82	0.61	1.28
Price/Cash Flow (P/CF)	8.19	8.95	10.66	7.57	NA	9.32
P/E (F1)	37.56	11.40	19.01	9.64	14.35	11.85
Price/Sales (P/S)	0.57	0.72	2.10	1.36	0.55	1.00
Earnings Yield	2.66%	8.60%	5.05%	10.39%	6.97%	8.45%
Debt/Equity	0.41	0.22	0.72	0.25	0.28	0.25
Cash Flow (\$/share)	4.47	3.12	7.01	3.17	-0.10	5.38
Growth Score	D	-	-	B	F	B
Hist. EPS Growth (3-5 yrs)	-22.01%	3.05%	10.88%	11.92%	-5.66%	11.47%
Proj. EPS Growth (F1/F0)	-63.29%	5.40%	-7.32%	-15.01%	344.44%	-8.94%
Curr. Cash Flow Growth	-8.72%	5.61%	5.92%	21.44%	-102.44%	21.30%
Hist. Cash Flow Growth (3-5 yrs)	-11.78%	7.31%	8.55%	15.01%	NA	13.47%
Current Ratio	0.57	0.44	1.23	0.56	0.60	0.30
Debt/Capital	26.09%	18.73%	43.84%	19.06%	22.02%	20.05%
Net Margin	6.25%	7.57%	11.08%	23.47%	-0.43%	9.55%
Return on Equity	5.39%	8.18%	16.44%	10.92%	-1.67%	12.72%
Sales/Assets	0.20	0.32	0.54	0.19	0.19	0.33
Proj. Sales Growth (F1/F0)	-6.67%	0.00%	-1.42%	-5.11%	-1.58%	2.05%
Momentum Score	F	-	-	B	F	B
Daily Price Chg	-3.23%	-3.81%	-2.39%	-6.06%	-2.91%	-4.91%
1 Week Price Chg	-12.20%	-3.88%	-1.74%	-12.93%	-8.14%	-5.48%
4 Week Price Chg	0.33%	3.56%	17.07%	-8.70%	6.99%	3.62%
12 Week Price Chg	-43.96%	-22.23%	-18.53%	-47.92%	-47.78%	-26.37%
52 Week Price Chg	-35.78%	-22.55%	-9.82%	-29.03%	-54.07%	-28.08%
20 Day Average Volume	952,771	137,204	2,641,413	2,150,758	275,733	305,873
(F1) EPS Est 1 week change	-78.59%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	-81.97%	-6.22%	-6.62%	-19.71%	-14.29%	-3.22%
(F1) EPS Est 12 week change	-81.97%	-9.02%	-13.28%	-20.24%	-29.41%	-5.35%
(Q1) EPS Est Mthly Chg	-43.37%	-3.92%	-11.97%	-12.66%	-13.11%	-12.04%

Zacks Stock Rating System

We offer two rating systems that take into account investors' holding horizons: Zacks Rank and Zacks Recommendation. Each provides valuable insights into the future profitability of the stock and can be used separately or in combination with each other depending on your investment style.

Zacks Recommendation

The Zacks Recommendation aims to predict performance over the next 6 to 12 months. The foundation for the quantitatively determined Zacks Recommendation is trends in the company's estimate revisions and earnings outlook. The Zacks Recommendation is broken down into 3 Levels; Outperform, Neutral and Underperform. Unlike many Wall Street firms, we have an excellent balance between the number of Outperform and Neutral recommendations. Our team of 70 analysts are fully versed in the benefits of earnings estimate revisions and how that is harnessed through the Zacks quantitative rating system. But we have given our analysts the ability to override the Zacks Recommendation for the 1200 stocks that they follow. The reason for the analyst over-rides is that there are often factors such as valuation, industry conditions and management effectiveness that a trained investment professional can spot better than a quantitative model.

Zacks Rank

The Zacks Rank is our short-term rating system that is most effective over the one- to three-month holding horizon. The underlying driver for the quantitatively-determined Zacks Rank is the same as the Zacks Recommendation, and reflects trends in earnings estimate revisions.

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	D
Momentum Score	F
VGM Score	F

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.

Disclosures

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