

AXIS Capital Holdings(AXS)

\$46.19 (As of 08/13/20)

Price Target (6-12 Months): **\$49.00**

Long Term: 6-12 Months

Zacks Recommendation:
Neutral

(Since: 07/01/20)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

4-Sell

Zacks Style Scores:

VGM:C

Value: C

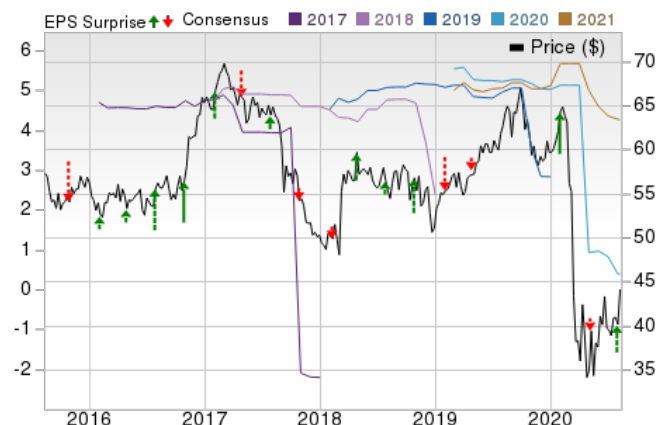
Growth: C

Momentum: D

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, it 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 catastrophe loss induces underwriting volatility. Stiff competition in reinsurance industry and high costs put a strain on margin. Thus, it has cut its expense budget to help protect the profitability in 2020. Amount that has been identified in expense cut is \$50 million.

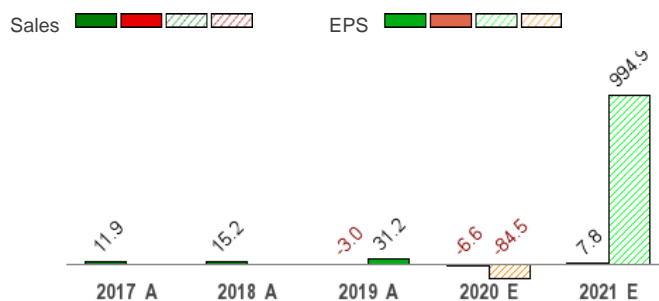
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$67.51 - \$31.82
20 Day Average Volume (sh)	900,274
Market Cap	\$3.9 B
YTD Price Change	-22.3%
Beta	0.59
Dividend / Div Yld	\$1.64 / 3.6%
Industry	Insurance - Property and Casualty
Zacks Industry Rank	Top 44% (111 out of 252)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	27.3%
Last Sales Surprise	NA
EPS F1 Est- 4 week change	-50.8%
Expected Report Date	11/03/2020
Earnings ESP	0.0%
P/E TTM	NA
P/E F1	118.4
PEG F1	13.9
P/S TTM	0.8

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021					5,118 E
2020	1,173 A	1,151 A			4,747 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	\$1.32 E	\$1.18 E	\$0.72 E	\$1.28 E	\$4.27 E
2020	-\$1.94 A	\$0.84 A	\$0.44 E	\$1.05 E	\$0.39 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 08/13/2020. The reports text is as of 08/14/2020.

Overview

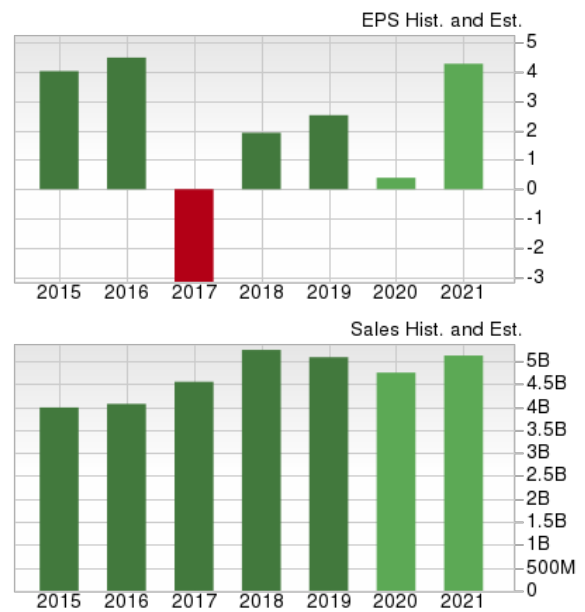
Incorporated on Dec 9, 2002, AXIS Capital Holdings Limited is the Bermuda-based holding company for the AXIS group of companies. AXIS Specialty Bermuda commenced operations on Nov 20, 2001. AXIS Specialty Bermuda and its subsidiaries became wholly owned subsidiaries of AXIS Capital pursuant to an exchange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

- ▲ Shares of AXIS Capital have lost 22.3% compared with the industry's decline of 0.8% on a year-to-date basis. Nonetheless, solid fundamentals should help shares bounce back.
- ▲ 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. However, premiums earned declined in the first half of 2020 due to poor performance of the Reinsurance segment. Nonetheless, the company has undertaken steps to boost growth. Repositioning of the portfolio, carried out over the past three years, will continue to drive its performance. Its stronger book of businesses have less inherent volatility. The company has brought down PMLs, decreased limits, and exited or reduced its participation in underperforming businesses while pushing for higher rate across the board. At the same time, it is focused on driving growth in its most attractive lines. It noted double-digit growth in core insurance lines of business supported by strong rate increases from every line of business and anticipates such improvement to continue into 2021. The company remains focused on markets that promise 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 is a leading specialty insurer and global reinsurer aiming leadership in specialty risks. The company thus remains focused on growth in Marine Cargo, Cyber and Renewable Energy, which is likely to provide strong double-digit ROE opportunities. Its focus on Property programs and Professional Liability and Excess Casualty lines should lead to strong double-digit rate increases. In fact, AXIS Capital exited over \$470 million of underperforming lines and invested in more attractive markets.
- ▲ 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 3.6%, way above the industry average of 0.4%. It boasts one of the highest dividend yields among its peers. It also bought back shares worth \$8.6 million in the first half of 2020.

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 and weather-related losses, net of reinstatement premiums, amounted to \$336 million in the first half of 2020, primarily due to the COVID-19 pandemic and other weather-related events. Combined ratios deteriorated 1060 bps in the first half of 2020. 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. Total expenses in the quarter under review increased more than 4.4% year over year to \$2.3 billion, attributable to higher net losses and loss expenses, and interest expense and financing costs. Net margin was negative 0.4% in the second quarter of 2020 versus 3% in the year-ago quarter. The company has cut its expense budget to help protect the profitability in 2020. Amount that has been identified in expense cuts is \$50 million. The company expects mid-to-high 13s run-rate by 2021.
- ▼ AXIS Capital's return-on-equity (ROE) undermines its growth potential. The company's trailing 12-month ROE of 6.3% compares unfavorably with the industry average of 6.5% and contracted 500 bps year over year, reflecting the company's inefficiency in using shareholders' funds. Increasing competition in the reinsurance industry is weighing on the company's growth and profitability.
- ▼ The company's long term debt has been increasing over the last few years with debt to capital ratio deteriorating. As of Jun 30, 2020, the company's long-term debt was \$1.3 billion, down 27.6% from the 2019-end level. Debt/capital ratio of 25.4 improved from 26.1 at 2019-end and reduced its leverage to within its targeted range. However, it compared unfavorably with the industry's measure of 21.8. Also, times interest earned, a measure to identify the company ability to service debt, of 1.1x in the second quarter was lower than the year-ago figure of 3.1 and the industry average of 4.1. The company's cash and cash equivalents of \$1.1 million as of Jun 30, 2020 are not sufficient for the company to meet its debt obligations.

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's Q2 Earnings Beat, Revenues Fall Y/Y

AXIS Capital Holdings reported second-quarter 2020 operating income of 84 cents per share, which beat the Zacks Consensus Estimate by 27.3%. However, the bottom line decreased 48.1% year over year.

Higher gross premiums written and lower expenses were offset by higher catastrophe losses and soft performance of Reinsurance segment.

Quarter Ending 06/2020

Report Date	Jul 28, 2020
Sales Surprise	NA
EPS Surprise	27.27%
Quarterly EPS	0.84
Annual EPS (TTM)	-1.44

Operational Update

Second-quarter operating revenues amounted to nearly \$1.2 billion, down 8.9% year over year. The downside can primarily be attributed to lower premiums earned and decline in net investment income.

Gross premiums written increased 4.1% year over year to about \$1.7 billion, largely attributable to 7.2% increase in the insurance segment.

Net investment income decreased 67.3% year over year to nearly \$45 million, primarily due to negative returns from credit and real estate funds.

Total expenses in the quarter under review declined 1.5% year over year to \$1 billion, courtesy of reduced acquisition costs, general and administrative expenses, reorganization expenses, lower amortization of value of business acquired, and amortization of intangible assets.

Catastrophe and weather-related losses, net of reinstatement premiums increased 41% year over year to \$36 million.

Combined ratio improved 140 basis points (bps) to 94.7%.

Segmental Results

Insurance: Gross premiums written grew 7.2% year over year to \$1 billion primarily attributable to increases in professional lines, property, marine and liability lines driven by new business and favorable rate changes, partially offset by decreases in credit and political risk and terrorism lines.

Net premiums earned increased 7.4% year over year to \$577 million.

Underwriting income of \$34.4 million surged 204% year over year. Combined ratio improved 360 bps to 94.2%.

Reinsurance: Gross premiums written decreased 0.1% year over year to \$678.6 million due to decrease in catastrophe, agriculture, and accident and health lines largely offset by increases in motor, liability and professional lines. Net premiums earned declined 10.1% year over year to \$526.9 million.

Underwriting income of \$53 million decreased 21.3% year over year. Combined ratio deteriorated 110 bps year over year to 90.2%.

Financial Standing

AXIS Capital exited the second quarter with cash and cash equivalents of \$1.1 billion, down 12.4% from 2019-end level.

Book value per share increased 11% from first quarter end to \$55.09 as of Jun 30, 2020.

Annualized operating return on equity contracted 550 bps to 6.3% in the second quarter.

Dividend Update

The company announced a dividend of 41 cents per share in the reported quarter. Over the past year, total dividend declared was \$1.63 per share.

Recent News

AXIS Capital Announces Quarterly Dividend — May 7, 2020

The board of directors of AXIS Capital declared a quarterly dividend of 41 cents per share. The dividend was paid out on Jul 15 to shareholders of record as of Jun 29.

Valuation

AXIS Capital shares are down 22.3% in the year-to-date period and 28.6% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Finance sector are down 8.0% and 15.4% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and sector are up 1.4% but down 4.5%, respectively.

The S&P 500 index is up nearly 4.6% in the year-to-date period and 18.6% in the past year.

The stock is currently trading at 0.82x trailing 12-month book value, which compares to 1.39x for the Zacks sub-industry, 2.47x for the Zacks sector and 4.7x for the S&P 500 index..

Over the past five years, the stock has traded as high as 1.22x and as low as 0.63x, with a 5-year median of 1.04x. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$49 price target reflects 0.8x 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	0.82	1.39	2.47	4.7
	5-Year High	1.22	1.67	2.91	4.71
	5-Year Low	0.63	0.93	1.72	2.83
	5-Year Median	1.04	1.46	2.53	3.74
P/S F12M	Current	0.78	1.73	6.22	3.7
	5-Year High	1.44	11.26	6.66	3.7
	5-Year Low	0.55	1.39	4.96	2.53
	5-Year Median	1.06	1.84	6.06	3.05
P/E F12M	Current	16.54	25.91	16.75	22.87
	5-Year High	21.66	31.55	16.75	22.87
	5-Year Low	NA	21.01	11.59	15.25
	5-Year Median	12.57	25.67	14.26	17.58

As of 08/13/2020

Industry Analysis Zacks Industry Rank: Top 44% (111 out of 252)



Top Peers

Company (Ticker)	Rec	Rank
American Financial Group, Inc. (AFG)	Outperform	3
RLI Corp. (RLI)	Outperform	1
Arch Capital Group Ltd. (ACGL)	Neutral	3
Argo Group International Holdings, Ltd. (ARGO)	Neutral	3
Chubb Limited (CB)	Neutral	3
Everest Re Group, Ltd. (RE)	Neutral	3
Selective Insurance Group, Inc. (SIGI)	Neutral	3
RenaissanceRe Holdings Ltd. (RNR)	Underperform	3

Industry Comparison Industry: Insurance - Property And Casualty				Industry Peers		
	AXS	X Industry	S&P 500	ACGL	ARGO	SIGI
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	4	-	-	3	3	3
VGM Score	C	-	-	B	F	B
Market Cap	3.89 B	1.26 B	23.58 B	13.14 B	1.25 B	3.34 B
# of Analysts	3	2	14	4	3	3
Dividend Yield	3.55%	1.33%	1.68%	0.00%	3.44%	1.65%
Value Score	C	-	-	C	B	B
Cash/Price	0.44	0.26	0.07	0.07	0.65	0.11
EV/EBITDA	8.74	5.35	13.34	8.27	15.48	8.27
PEG Ratio	13.97	2.10	2.99	3.27	NA	8.51
Price/Book (P/B)	0.82	0.99	3.20	1.10	0.72	1.45
Price/Cash Flow (P/CF)	10.34	10.34	12.83	10.20	NA	10.38
P/E (F1)	118.77	15.09	21.99	32.69	37.92	15.84
Price/Sales (P/S)	0.79	0.84	2.53	1.81	0.67	1.20
Earnings Yield	0.84%	5.51%	4.35%	3.06%	2.64%	6.32%
Debt/Equity	0.38	0.24	0.77	0.33	0.29	0.24
Cash Flow (\$/share)	4.47	3.12	6.94	3.17	-0.10	5.38
Growth Score	C	-	-	C	F	C
Hist. EPS Growth (3-5 yrs)	-22.66%	3.85%	10.41%	14.06%	-6.26%	11.01%
Proj. EPS Growth (F1/F0)	-84.52%	-6.42%	-6.32%	-64.89%	205.56%	-19.85%
Curr. Cash Flow Growth	-8.72%	3.77%	5.20%	21.44%	-102.44%	21.30%
Hist. Cash Flow Growth (3-5 yrs)	-11.78%	4.81%	8.55%	15.01%	NA	13.47%
Current Ratio	0.59	0.45	1.33	0.61	0.57	0.31
Debt/Capital	25.37%	20.03%	44.59%	24.00%	22.31%	19.32%
Net Margin	-0.41%	5.18%	10.13%	15.88%	-8.23%	6.73%
Return on Equity	-1.85%	6.80%	14.51%	6.97%	-4.61%	9.90%
Sales/Assets	0.19	0.31	0.51	0.19	0.18	0.31
Proj. Sales Growth (F1/F0)	-6.60%	0.00%	-1.43%	14.76%	-1.13%	1.00%
Momentum Score	D	-	-	B	F	B
Daily Price Chg	0.39%	-0.59%	-0.44%	-0.74%	-1.21%	-1.03%
1 Week Price Chg	9.90%	4.75%	2.30%	5.66%	6.39%	4.55%
4 Week Price Chg	12.17%	4.35%	4.38%	5.00%	3.42%	-2.05%
12 Week Price Chg	21.42%	13.96%	13.59%	17.89%	18.53%	7.40%
52 Week Price Chg	-28.61%	-12.76%	5.75%	-16.83%	-46.21%	-29.01%
20 Day Average Volume	900,274	132,833	1,984,154	1,532,331	196,056	287,333
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	17.86%	3.64%	0.00%
(F1) EPS Est 4 week change	-50.84%	0.00%	2.08%	15.56%	-8.06%	5.48%
(F1) EPS Est 12 week change	-59.59%	-2.38%	2.66%	-18.85%	-18.57%	3.42%
(Q1) EPS Est Mthly Chg	-45.68%	1.82%	0.94%	57.14%	21.80%	19.27%

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	C
Momentum Score	D
VGM Score	C

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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ZIR uses the following rating system for the securities it covers. **Outperform-** ZIR expects that the subject company will outperform the broader U.S. equities markets over the next six to twelve months. **Neutral-** ZIR expects that the company will perform in line with the broader U.S. equities markets over the next six to twelve months. **Underperform-** ZIR expects the company will underperform the broader U.S. equities markets over the next six to twelve months.

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