

AXIS Capital Holdings(AXS)

\$36.44 (As of 05/18/20)

Price Target (6-12 Months): **\$31.00**

Long Term: 6-12 Months

Zacks Recommendation: Underperform

(Since: 05/19/20)

Prior Recommendation: Neutral

Short Term: 1-3 Months

Zacks Rank: (1-5)

5-Strong Sell

Zacks Style Scores:

VGM:D

Value: D

Growth: F

Momentum: B

Summary

Shares of AXIS Capital have underperformed the industry year to date. The company's exposure to catastrophe loss induces underwriting volatility. Stiff competition in reinsurance industry and high costs put a strain on margin. Thus, AXIS Capital has cut its expense budget to help protect the profitability in 2020. Amount that has been identified in expense cuts is \$50 million. Nonetheless, 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. It has been improving its portfolio mix, underwriting profitability and fortifying the casualty and professional lines in the insurance segment. The company continues to deploy capital for boosting shareholder value.

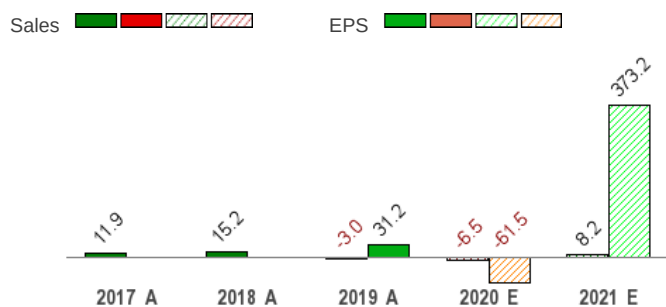
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$67.51 - \$31.82
20 Day Average Volume (sh)	998,689
Market Cap	\$3.1 B
YTD Price Change	-39.0%
Beta	0.60
Dividend / Div Yld	\$1.64 / 4.5%
Industry	Insurance - Property and Casualty
Zacks Industry Rank	Bottom 43% (144 out of 254)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	-1.0%
Last Sales Surprise	NA
EPS F1 Est- 4 week change	-77.7%
Expected Report Date	08/04/2020
Earnings ESP	0.0%
P/E TTM	NA
P/E F1	38.0
PEG F1	4.5
P/S TTM	0.6

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021					5,142 E
2020	1,173 A				4,752 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	\$1.36 E	\$1.16 E	\$0.78 E	\$1.36 E	\$4.59 E
2020	-\$1.94 A	\$0.73 E	\$0.81 E	\$1.37 E	\$0.97 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 05/18/2020. The reports text is as of 05/19/2020.

Overview

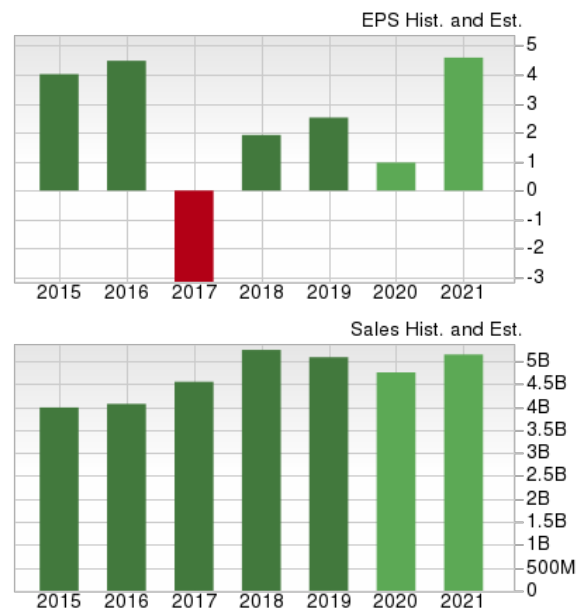
Incorporated on Dec 9, 2002, AXIS Capital Holdings Limited is the Bermuda-based holding company for the AXIS group of companies. AXIS Specialty Bermuda commenced operations on Nov 20, 2001. AXIS Specialty Bermuda and its subsidiaries became wholly owned subsidiaries of AXIS Capital pursuant to an exchange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

- ▼ Shares of AXIS Capital have lost 39% compared with the industry's decline of 23.6% year to date. Exposure to cat loss and higher expenses will continue to weigh on share price.
- ▼ 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 \$300 million in the first quarter of 2020, soaring 2705% year over year from \$11 million primarily due to the COVID-19 pandemic and other weather-related events. 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 10% year over year to \$1.3 billion, attributable to higher net losses and loss expenses, and interest expense and financing costs. 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.
- ▼ AXIS Capital's return-on-equity (ROE) undermines its growth potential. The company's trailing 12-month negative ROE of 0.4% compares unfavorably with the industry average of 6.5%, 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 Mar 31, 2020, the company's long-term debt was \$1.8 billion, up 0.03% from the 2019-end level. As of Mar 31, 2020, the company's total debt/total capital ratio of 27.2 is higher than its figure of 24.6 at 2019-end. Also, long-term debt to capital of 30% compares unfavorably with the industry's measure of 21.8%. The company's cash and cash equivalents of \$756 million as of Mar 31, 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.

Risks

- 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 declined 4% year over year in the first quarter of 2020 due to poor performance in the Reinsurance segment. 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. Its dividend yield is currently 4.8%, way above the industry average of 0.6%.
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Last Earnings Report

AXIS Capital's Q1 Earnings Miss, Revenues Fall Y/Y

AXIS Capital Holdings Limited reported first-quarter 2020 operating loss of \$1.94 per share, wider than the Zacks Consensus Estimate of a loss of \$1.92 per share. Notably, the company had reported operating income of \$1.24 per share in the prior-year quarter.

The company's results were impacted by lower revenues and higher costs. The COVID-19 pandemic affected the results as well.

Quarter Ending **03/2020**

Report Date	May 04, 2020
Sales Surprise	NA
EPS Surprise	-1.04%
Quarterly EPS	-1.94
Annual EPS (TTM)	-0.66

Operational Update

First-quarter operating revenues amounted to nearly \$1.2 billion, down 6% year over year. The downside can primarily be attributed to lower premiums and decline in net investment income.

Gross premiums written plunged 5.9% year over year to \$2.4 billion on account of 14% fall in Reinsurance segment.

Net investment income declined 13.2% year over year to nearly \$93.1 million.

Total expenses in the quarter under review increased more than 10% year over year to \$1.3 billion, attributable to higher net losses and loss expenses, and interest expense and financing costs.

AXIS Capital incurred underwriting loss of \$196.8 million, which compared against the prior-year quarter's underwriting income of \$77.8 million. Combined ratio deteriorated 2290 basis points (bps) to 119.8%.

Segment Results

Insurance: Gross premiums written improved 10.5% year over year to \$940.7 million owing to strong growth in professional lines, liability, property and marine lines, which benefited by new business and favorable rate changes.

Net premiums earned inched up 1% year over year to \$562.1 million.

Underwriting loss was \$122.6 million against year-ago quarter's income of \$20.9 million. Combined ratio deteriorated 2530 bps to 121.9%.

Reinsurance: Gross premiums written in the first quarter declined 14% year over year to \$1.5 billion, primarily owing to catastrophe, credit and surety, and property lines, which were impacted by non-renewals and lower line sizes.

Net premiums earned declined 8.8% year over year to \$526.6 million.

The company reported underwriting loss of \$74.1 million against the year-ago quarter's income of \$56.9 million. Combined ratio deteriorated 2130 bps year over year to 112.3%.

Financial Update

AXIS Capital exited the first quarter with cash and cash equivalents of \$756 million, down 39.1% over the level at 2019 end.

Book value per share declined 5.8% year over year to \$49.78 as of Mar 31, 2020.

Dividend Update

Concurrent with the earnings release, AXIS Capital announced a dividend of 41 cents per share in first-quarter 2020.

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 will be paid out on Jul 15 to shareholders of record as of Jun 29. In addition, the board also declared a dividend of 34.375 cents per Series E Preferred share to be paid out on Jul 15 to shareholders of record as of Jun 29.

Valuation

AXIS Capital shares are down 39% in the year-to-date period and 38.1% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Finance sector are down 23.6% and 26.1% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and sector are down 16.8% and 19%, respectively.

The S&P 500 index is down 8.2% in the year-to-date period and up 3.8% in the past year.

The stock is currently trading at 0.71x trailing 12-month book value, which compares to 1.14x for the Zacks sub-industry, 2.36x for the Zacks sector and 4.03x for the S&P 500 index.

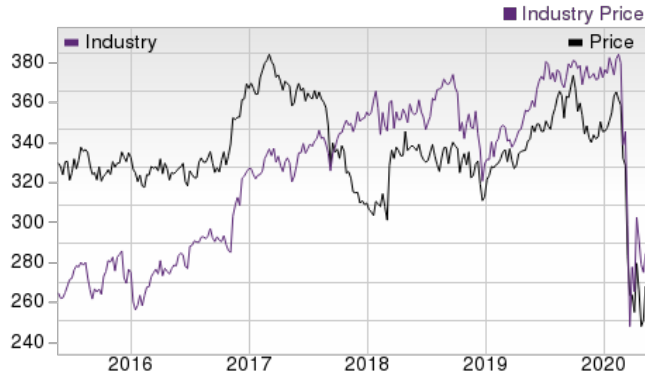
Over the past five years, the stock has traded as high as 1.22x and as low as 0.63x, with a 5-year median of 1.04x. Our Underperform recommendation indicates that the stock will perform worse the market. Our \$31 price target reflects 0.61x book value.

The table below shows summary valuation data for AXS

Valuation Multiples -AXS					
		Stock	Sub-Industry	Sector	S&P 500
P/B TTM	Current	0.71	1.14	2.36	4.03
	5-Year High	1.22	1.67	2.9	4.56
	5-Year Low	0.63	0.93	1.71	2.83
	5-Year Median	1.04	1.46	2.53	3.65
P/S F12M	Current	0.62	1.4	5.81	3.34
	5-Year High	1.44	11.26	6.7	3.44
	5-Year Low	0.55	1.4	4.99	2.53
	5-Year Median	1.12	1.87	6.05	3.01
P/E F12M	Current	15.47	21.94	15.4	21.52
	5-Year High	21.66	31.55	16.18	21.52
	5-Year Low	NA	21.01	11.58	15.23
	5-Year Median	12.53	25.42	13.94	17.49

As of 05/18/2020

Industry Analysis Zacks Industry Rank: Bottom 43% (144 out of 254)



Top Peers

Company (Ticker)	Rec	Rank
American Financial Group, Inc. (AFG)	Neutral	3
Chubb Limited (CB)	Neutral	4
Everest Re Group, Ltd. (RE)	Neutral	4
RLI Corp. (RLI)	Neutral	3
RenaissanceRe Holdings Ltd. (RNR)	Neutral	4
Selective Insurance Group, Inc. (SIGI)	Neutral	3
Arch Capital Group Ltd. (ACGL)	Underperform	5
Argo Group International Holdings, Ltd. (ARGO)	Underperform	5

Industry Comparison Industry: Insurance - Property And Casualty				Industry Peers		
	AXS	X Industry	S&P 500	ACGL	ARGO	SIGI
Zacks Recommendation (Long Term)	Underperform	-	-	Underperform	Underperform	Neutral
Zacks Rank (Short Term)	5	-	-	5	5	3
VGM Score	D	-	-	C	D	D
Market Cap	3.06 B	1.14 B	20.09 B	9.88 B	1.09 B	3.04 B
# of Analysts	2	2	14	3	3	3
Dividend Yield	4.52%	1.26%	2.1%	0.00%	3.95%	1.81%
Value Score	D	-	-	B	B	C
Cash/Price	0.43	0.22	0.07	0.09	0.91	0.19
EV/EBITDA	8.45	4.75	12.13	6.17	11.37	7.20
PEG Ratio	4.47	1.75	2.72	NA	NA	8.84
Price/Book (P/B)	0.71	0.96	2.75	0.90	0.66	1.45
Price/Cash Flow (P/CF)	8.12	8.12	10.86	7.68	NA	9.47
P/E (F1)	37.96	12.76	20.10	19.97	26.91	14.94
Price/Sales (P/S)	0.61	0.72	2.05	1.47	0.57	1.08
Earnings Yield	2.65%	7.14%	4.77%	5.01%	3.73%	6.69%
Debt/Equity	0.48	0.26	0.76	0.26	0.30	0.26
Cash Flow (\$/share)	4.47	3.12	7.01	3.17	-0.10	5.38
Growth Score	F	-	-	B	F	C
Hist. EPS Growth (3-5 yrs)	-22.09%	4.86%	10.87%	14.25%	-5.96%	11.89%
Proj. EPS Growth (F1/F0)	-61.71%	-2.01%	-10.31%	-56.74%	229.63%	-22.50%
Curr. Cash Flow Growth	-8.72%	5.61%	5.51%	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	0.56	0.45	1.28	0.52	0.57	0.32
Debt/Capital	30.01%	20.55%	44.46%	19.85%	23.37%	20.80%
Net Margin	0.73%	3.92%	10.59%	19.61%	-6.24%	8.02%
Return on Equity	-0.38%	7.52%	16.29%	9.93%	-3.30%	12.30%
Sales/Assets	0.20	0.31	0.55	0.18	0.18	0.32
Proj. Sales Growth (F1/F0)	-6.50%	0.00%	-2.49%	-5.11%	-4.22%	-1.79%
Momentum Score	B	-	-	F	F	D
Daily Price Chg	5.77%	5.64%	5.21%	6.01%	11.23%	9.54%
1 Week Price Chg	-12.90%	-5.25%	-4.56%	-11.45%	-15.99%	-3.39%
4 Week Price Chg	-3.87%	-4.99%	4.12%	-8.76%	-10.65%	1.33%
12 Week Price Chg	-41.22%	-23.41%	-16.39%	-46.64%	-49.29%	-21.70%
52 Week Price Chg	-38.07%	-26.23%	-5.84%	-28.06%	-58.00%	-28.68%
20 Day Average Volume	998,689	132,317	2,651,378	2,389,510	278,413	376,754
(F1) EPS Est 1 week change	4.32%	0.00%	0.00%	0.00%	-23.08%	0.00%
(F1) EPS Est 4 week change	-77.66%	-9.45%	-4.48%	-49.10%	-54.25%	-17.96%
(F1) EPS Est 12 week change	-81.19%	-18.82%	-16.39%	-59.20%	-63.54%	-19.45%
(Q1) EPS Est Mthly Chg	-4.58%	-9.84%	-9.90%	-83.00%	-74.88%	-49.69%

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	D
Growth Score	F
Momentum Score	B
VGM Score	D

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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