

AXIS Capital Holdings(AXS)

\$59.36 (As of 12/30/19)

Price Target (6-12 Months): **\$50.00**

Long Term: 6-12 Months

Zacks Recommendation: Underperform

(Since: 10/31/19)

Prior Recommendation: Neutral

Short Term: 1-3 Months

Zacks Rank: (1-5)

5-Strong Sell

Zacks Style Scores:

VGM:F

Value: D

Growth: F

Momentum: D

Summary

Exposure to cat loss has been denting AXIS capital's underwriting results and affecting its combined ratio. It incurred loss in the third quarter owing to underwriting loss across all business lines. Stiff competition in the reinsurance industry and escalating expenses due to higher net losses and loss expenses could restrict margin expansion. However, 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 also 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 shareholders value.

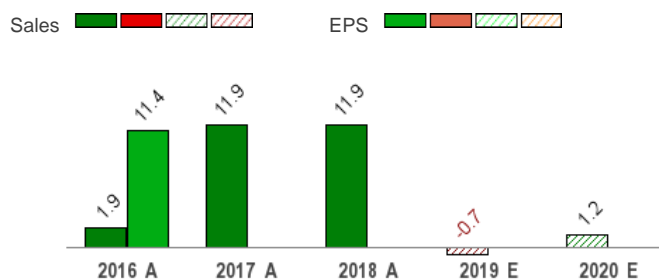
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$67.51 - \$50.65
20 Day Average Volume (sh)	437,349
Market Cap	\$5.0 B
YTD Price Change	15.0%
Beta	0.28
Dividend / Div Yld	\$1.64 / 2.8%
Industry	Insurance - Property and Casualty
Zacks Industry Rank	Bottom 37% (159 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	21.8%
Last Sales Surprise	NA
EPS F1 Est- 4 week change	-0.1%
Expected Report Date	01/29/2020
Earnings ESP	0.0%
P/E TTM	84.8
P/E F1	20.9
PEG F1	2.5
P/S TTM	1.0

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2020					5,114 E
2019	1,248 A	1,264 A	1,275 A		5,054 E
2018	1,275 A	1,299 A	1,347 A	1,319 A	5,090 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2020	\$0.36 E	\$1.22 E	\$1.22 E	\$0.92 E	\$2.84 E
2019	\$1.24 A	\$1.62 A	-\$0.39 A	\$0.00 E	
2018	\$1.46 A	\$1.27 A	\$0.96 A	-\$1.77 A	\$1.92 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 12/30/2019. The reports text is as of 12/31/2019.

Overview

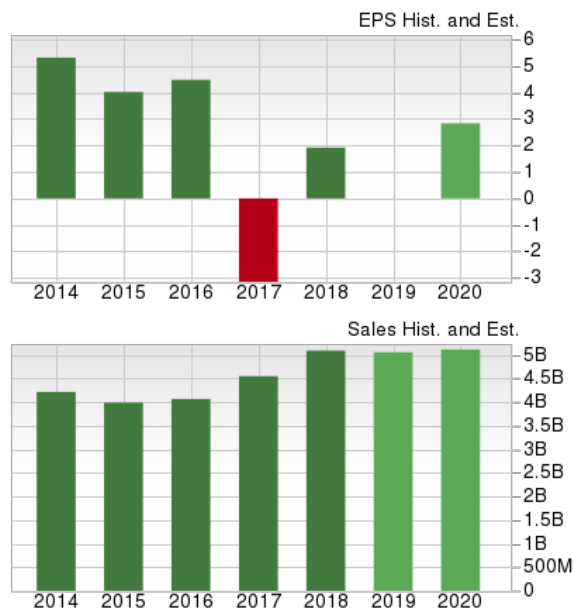
Incorporated on Dec 9, 2002, AXIS Capital Holdings Limited is the Bermuda-based holding company for the AXIS group of companies. AXIS Specialty Bermuda commenced operations on Nov 20, 2001. AXIS Specialty Bermuda and its subsidiaries became wholly owned subsidiaries of AXIS Capital pursuant to an exchange 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 2018 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 gained 14.9% in a year's time outperforming the industry's increase of 11.9%. However, factors like exposure to cat loss and escalating expenses remain headwinds for its performance.
- ▼ 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 \$160 million in the third quarter, stemming from Hurricane Dorian, the Japanese typhoons and other weather-related events while combined ratio deteriorated 1150 bps. 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, through the first nine months of 2019, the company witnessed 3.5% drop in expenses favoring 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 2% 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.

Risks

- New business opportunities across AXIS Capital's lines of business and geography have helped the company achieve growth in premium writings. Axa syndicate 1686, AXIS Capital's syndicate at Lloyds continues to perform well. Lloyds received full support from the company with respect to its recent actions to mandate the use of electronic placement and reduce unprofitable underwriting. This action is also anticipated to positively impact pricing. The company has also been expanding capabilities for AXIS Ventures, its third-party capital vehicle. In addition, its initiatives including re-entry into U.S. primary casualty, and weather and commodities business are contributing to the bottom line. The A&H business is also showing strength. The company expects to capitalize on the new opportunities offered by its global licenses and widespread distribution network.

These along with strategic buyouts helped AXIS Capital ramp up premium growth. Acquisition of Novae Group plc in 2017 places the acquirer into the top ten insurers' bracket at Lloyd. The company also acquired Aviabel in April 2017 to boost its existing airline business.

- On the back of higher net premiums earned as well as investment income, the company has been witnessing an increase in its top line over a considerable period of time. This momentum continued through the first half of 2019 but the topline declined in the third quarter of 2019. Nonetheless, the company continues to benefit from improved pricing. Moreover, the company continues to build on its Specialty Insurance, Reinsurance, and Accident and Health — to pave way for long-term growth. AXIS Capital also remains focused on augmenting its portfolio mix and improving underwriting profitability apart from strengthening focus on casualty and professional lines in the insurance segment, and motor and reinsurance in particular.
 - To expedite its growth profile and boost shareholder value, AXIS Capital has chalked out plans to capitalize on opportunities by utilizing its resources prudently to enhance efficiencies and better serve clients and brokers across the globe. The company realigned A&H operations into the insurance and reinsurance segments, restructured finance and IT functions around an integrated organizational structure and remains focused to build out new global underwriting and analytics office. It is continuously evaluating opportunities to optimize portfolio, lower volatility and reduce exposure to less profitable business, and grow in attractive lines and markets. The company has also made investments in A&H, renewable energy, cyber, agriculture reinsurance and mortgage reinsurance. The company remains optimistic about growth in the metric as fee income is a steady and increasing source of attractive revenues for AXIS Capital.
 - AXIS Capital continues to boost shareholder value through stock buybacks and dividend hikes. With a 2.6% hike in its quarterly common share dividend in the fourth-quarter of 2018 the company has been able to approve 14 consecutive dividend raises driven by solid earnings.
 - AXIS Capital has been witnessing solid investment results, with the metric improving nearly 11% through the first nine months of 2019. Though the Fed has cut rates thrice this year citing muted inflation and slowdown in economic growth, we expect net investment income to continue to rise.
-

Last Earnings Report

AXIS Capital Q3 Earnings Miss Estimates, Down Y/Y

AXIS Capital reported third-quarter 2019 operating loss of 39 cents against the Zacks Consensus Estimate of a breakeven. In the year-ago quarter, the company delivered earnings of 96 cents per share.

The company witnessed substantial underwriting loss across all business lines.

Operational Update

Operating revenues amounted to nearly \$1.28 billion, which declined 5.3% year over year.

Gross premiums written declined 1% year over year to about \$1.4 billion. The downside was primarily caused by 8% fall in the insurance segment, partially offset by 13% rise in the reinsurance segment. The metric inched up 1% on a constant-currency basis.

Net investment income increased 1.2% year over year to nearly \$115.8 million.

Total expenses in the quarter under review declined 2.9% year over year to \$1.24 billion, courtesy of reduced transaction and reorganization expenses, amortization of value of business acquired and foreign exchange gains.

Combined ratio deteriorated 1150 basis points (bps) to 109.4%.

Segmental Results

Insurance: Gross premiums written fell 7.7% year over year to \$894.9 million due to the repositioning of the portfolio. It was partially offset by increase in liability lines driven by new business and favorable rate changes. Net premiums earned declined 12.7% year over year to \$536.4 million

Underwriting loss of \$17.9 million widened 52.8% year over year. Combined ratio deteriorated 130 bps to 103.5%.

Reinsurance: Gross premiums written increased 12.6% year over year to \$511.6 million primarily owing to timing differences. Additionally, the increase in catastrophe lines was caused by new business. The uptick was partially offset by decline in property lines associated with the repositioning of the portfolio. Net premiums earned increased 1.9% year over year to \$620.8 million.

The segment sustained underwriting loss of \$60.8 million against an underwriting gain of \$70.7 million in the year-ago quarter. Combined ratio deteriorated 2040 bps year over year to 109.9%.

Financial Standing

AXIS Capital exited the third quarter with cash and cash equivalents of \$763.8 million, down 38% from 2018-end level.

Senior notes totaled \$1.4 billion, up 3.4% from 2018 end.

Book value per share increased 0.5% year over year to \$56.26 as of Sep 30, 2019.

Dividend Update

The company announced dividend payout of 40 cents per share in the reported quarter. In the past year, total dividend declared was \$1.60 per share.

Quarter Ending 09/2019

Report Date	Oct 29, 2019
Sales Surprise	NA
EPS Surprise	21.80%
Quarterly EPS	-0.39
Annual EPS (TTM)	0.70

Recent News

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 14.9% over the trailing 12-month period. Over the past year, stocks in the Zacks sub-industry and Finance sector are up 11.9% and 11.8% respectively.

The S&P 500 index are up 28% in the past year.

The stock is currently trading at 1.04X trailing 12-month book value, which compares to 1.42X for the Zacks sub-industry, 2.83X for the Zacks sector and 4.42X 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 Underperform recommendation indicates that the stock will perform worse than the market. Our \$50 price target reflects 0.87X trailing 12- month 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	1.04	1.42	2.83	4.42
	5-Year High	1.22	1.67	2.89	4.42
	5-Year Low	0.86	1.26	1.83	2.85
	5-Year Median	1.04	1.47	2.5	3.6
P/S F12M	Current	0.97	1.59	6.56	3.41
	5-Year High	1.44	11.3	6.61	3.41
	5-Year Low	0.74	1.55	5.2	2.54
	5-Year Median	1.16	1.93	6.03	3
P/E F12M	Current	11.82	26.36	14.8	18.77
	5-Year High	21.66	31.55	16.21	19.34
	5-Year Low	-23.39	22.77	12.01	15.17
	5-Year Median	12.49	25.57	13.98	17.44

As of 12/30/2019

Industry Analysis Zacks Industry Rank: Bottom 37% (159 out of 253)



Top Peers

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

Industry Comparison Industry: Insurance - Property And Casualty				Industry Peers		
	AXS Underperform	X Industry	S&P 500	ACGL Neutral	ARGO Underperform	SIGI Underperform
VGM Score	F	-	-	C	D	B
Market Cap	4.98 B	1.93 B	23.80 B	17.32 B	2.26 B	3.85 B
# of Analysts		2	13			
Dividend Yield	2.76%	1.02%	1.78%	0.00%	1.89%	1.42%
Value Score	D	-	-	C	C	B
Cash/Price	0.24	0.17	0.04	0.27	0.28	0.09
EV/EBITDA	21.43	9.32	13.88	15.31	16.38	14.46
PEG Ratio	2.46	2.06	2.13	1.56	NA	2.06
Price/Book (P/B)	1.04	1.27	3.33	1.54	1.19	1.80
Price/Cash Flow (P/CF)	12.08	13.41	13.55	16.33	15.52	14.49
P/E (F1)	20.90	15.52	19.62	15.55	45.03	15.52
Price/Sales (P/S)	0.98	1.07	2.66	2.65	1.20	1.39
Earnings Yield	4.78%	6.34%	5.09%	6.44%	2.22%	6.45%
Debt/Equity	0.33	0.21	0.71	0.26	0.27	0.26
Cash Flow (\$/share)	4.91	3.05	6.94	2.62	4.24	4.47
Growth Score	F	-	-	C	D	C
Hist. EPS Growth (3-5 yrs)	-23.80%	-0.16%	10.48%	8.71%	-5.09%	11.25%
Proj. EPS Growth (F1/F0)	47.74%	20.09%	6.14%	24.89%	-54.66%	14.07%
Curr. Cash Flow Growth	-541.78%	12.66%	14.75%	84.88%	651.83%	11.17%
Hist. Cash Flow Growth (3-5 yrs)	-13.32%	7.23%	8.93%	11.39%	2.81%	13.91%
Current Ratio	0.55	0.44	1.24	0.69	0.54	0.32
Debt/Capital	22.20%	17.79%	42.92%	20.08%	21.46%	20.49%
Net Margin	2.68%	5.34%	11.06%	21.97%	2.72%	8.53%
Return on Equity	2.02%	6.81%	17.10%	10.31%	3.30%	12.83%
Sales/Assets	0.20	0.31	0.54	0.19	0.19	0.33
Proj. Sales Growth (F1/F0)	-3.56%	0.00%	2.49%	15.52%	3.40%	7.21%
Momentum Score	D	-	-	F	F	B
Daily Price Chg	-0.44%	0.03%	0.21%	0.40%	0.14%	0.02%
1 Week Price Chg	-2.13%	-0.63%	1.46%	-0.26%	-0.88%	-2.78%
4 Week Price Chg	1.73%	0.90%	1.98%	2.91%	0.75%	-0.96%
12 Week Price Chg	-8.66%	-1.70%	9.78%	2.64%	-4.17%	-14.59%
52 Week Price Chg	14.95%	10.57%	28.47%	59.92%	-2.25%	6.35%
20 Day Average Volume	437,349	122,084	1,778,443	1,061,436	154,227	269,693
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	-0.12%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 12 week change	-43.91%	-1.85%	0.12%	-2.57%	-58.48%	-4.02%
(Q1) EPS Est Mthly Chg	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%

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	C
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

This report contains independent commentary to be used for informational purposes only. The analysts contributing to this report do not hold any shares of this stock. The analysts contributing to this report do not serve on the board of the company that issued this stock. The EPS and revenue forecasts are the Zacks Consensus estimates, unless indicated otherwise on the reports first page. Additionally, the analysts contributing to this report certify that the views expressed herein accurately reflect the analysts personal views as to the subject securities and issuers. ZIR certifies that no part of the analysts compensation was, is, or will be, directly or indirectly, related to the specific recommendation or views expressed by the analyst in the report.

Additional information on the securities mentioned in this report is available upon request. This report is based on data obtained from sources we believe to be reliable, but is not guaranteed as to accuracy and does not purport to be complete. Any opinions expressed herein are subject to change.

ZIR is not an investment advisor and the report should not be construed as advice designed to meet the particular investment needs of any investor. Prior to making any investment decision, you are advised to consult with your broker, investment advisor, or other appropriate tax or financial professional to determine the suitability of any investment. This report and others like it are published regularly and not in response to episodic market activity or events affecting the securities industry.

This report is not to be construed as an offer or the solicitation of an offer to buy or sell the securities herein mentioned. ZIR or its officers, employees or customers may have a position long or short in the securities mentioned and buy or sell the securities from time to time. ZIR is not a broker-dealer. ZIR may enter into arms-length agreements with broker-dealers to provide this research to their clients. Zacks and its staff are not involved in investment banking activities for the stock issuer covered in this report.

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.

No part of this report can be reprinted, republished or transmitted electronically without the prior written authorization of ZIR.