

Chubb Limited (CB)

\$127.24 (As of 07/31/20)

Price Target (6-12 Months): **\$135.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 02/07/19)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:C

Value: B

Growth: C

Momentum: F

Summary

Chubb's second-quarter earnings beat estimates. The company benefits from a suite of compelling products as well as services. Its inorganic growth story helps it to achieve a higher long-term return on equity. It boasts a strong capital position, with sufficient cash generation capabilities. Strong capital position helps it boost shareholders' value and invest in strategic growth initiatives that pave the way for long-term growth. Chubb effectively deploys capital through share repurchases and dividend payouts. Shares of Chubb have outperformed its industry year to date. However, Chubb anticipates revenue and earnings in the short term to be affected by the impact of the COVID-19 pandemic. Exposure to catastrophe loss remains a concern as it induces volatility in underwriting profitability. Elevated expenses weigh on margins.

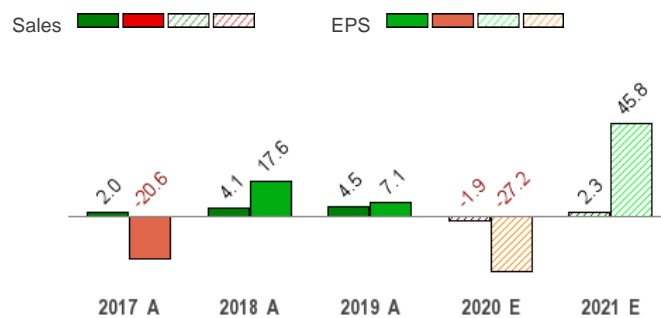
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$167.74 - \$87.35
20 Day Average Volume (sh)	1,587,494
Market Cap	\$57.4 B
YTD Price Change	-18.3%
Beta	0.71
Dividend / Div Yld	\$3.12 / 2.5%
Industry	Insurance - Property and Casualty
Zacks Industry Rank	Bottom 31% (174 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	15.2%
Last Sales Surprise	-1.9%
EPS F1 Est- 4 week change	-30.4%
Expected Report Date	NA
Earnings ESP	3.7%
P/E TTM	17.9
P/E F1	17.3
PEG F1	1.7
P/S TTM	1.6

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	8,172 E	8,591 E	9,039 E	8,536 E	35,435 E
2020	8,600 A	8,897 A	9,116 E	8,582 E	34,655 E
2019	8,012 A	8,980 A	9,257 A	9,063 A	35,312 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$2.67 E	\$2.58 E	\$2.54 E	\$2.95 E	\$10.73 E
2020	\$2.68 A	-\$0.56 A	\$2.31 E	\$2.70 E	\$7.36 E
2019	\$2.54 A	\$2.60 A	\$2.70 A	\$2.28 A	\$10.11 A

*Quarterly figures may not add up to annual.

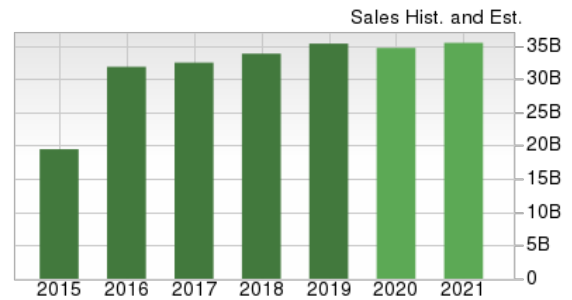
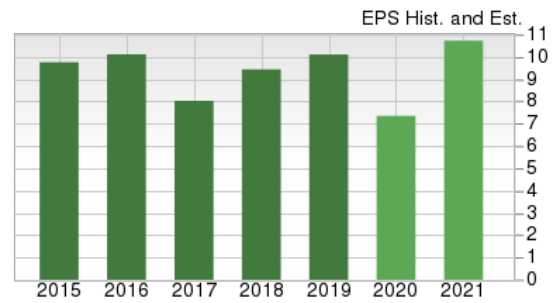
The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 07/31/2020. The reports text is as of 08/03/2020.

Overview

Chubb Limited was formerly known as ACE Limited. ACE Limited after acquiring The Chubb Corp in Jan 2016 assumed the name of Chubb. Headquartered in Zurich, Switzerland, the company boasts being one of the world's largest providers of property and casualty (P&C) insurance and reinsurance and largest publicly traded P&C insurer, based on market capitalization of \$56.9 billion. Chubb has diversified through acquisitions into many specialty lines, including marine, medical risk, excess property, environmental and terrorism insurance and has local operations in 54 countries and territories. Chubb provides specialized insurance products such as personal accident, supplemental health and life insurance to individuals in select countries. Its reinsurance operations include both P&C and life companies.

Chubb presently operates through following six segments: **North America Commercial P&C Insurance (40% of 2019 written premiums)** segment offers a broad range of retail, and wholesale and specialty products. **Overseas General (29%)** segment provides property, primary and excess casualty, energy, professional risk, marine, political risk, trade risk, accident and health, aviation, and consumer-driven products. **North America Personal P&C Insurance (15%)** includes the business written by Chubb Personal Risk Services division comprising Chubb high net worth personal lines business and ACE Private Risk Services. **Life (8%)** segment offers traditional life reinsurance and life insurance products in Thailand, Vietnam, the United Arab Emirates, Taiwan, China, Egypt, among others. **North America**

Agriculture (6%) segment offers coverage for agriculture business. These include Multiple Peril Crop Insurance crop-hail and farm P&C insurance protection to U.S. and Canadian customers by means of Rain and Hail Insurance Service Inc. (Rain and Hail). **Global Reinsurance (2%)** segment offers a broad range of reinsurance products to several P&C insurers.



Reasons To Buy:

- ▲ Shares of Chubb have lost 18.2% year to date, narrower than the industry's loss of 14% over the same time frame. Strong fundamentals shall help the share price to rebound.
- ▲ Chubb has always considered acquisition as an effective strategy for inorganic growth and global expansion. Acquisitions provide the company with a competitive edge in terms of scale, efficiencies and balance sheet size, which would lead to considerable value creation in the future. Through acquisitions, Chubb has expanded its international and domestic footprint along with building a superior portfolio of products and services. Acquisitions have improved premium writings in the recent times and helped the company deliver better numbers, which we expect will continue.

- ▲ Apart from focusing on inorganic growth, Chubb made investments in various strategic initiatives that paved the way for long-term growth. The company is focusing on cyber insurance that has immense room for growth. Also, it has been putting in efforts to capitalize on the potential of middle-market businesses, both domestic and international, with traditional core package as well as specialty product. It believes Accident & Health and Personal Lines businesses are well poised for growth. The company's U.S. small commercial business has gained momentum and it expects this business to have an annual run rate of premium that can be in the multi-billion dollar range in the next three to five years. Further, Chubb's several distribution agreements have expanded its network, thus boosting its market presence.

We expect growth momentum to continue with improved rate environment and increase in exposure and market share.

- ▲ Chubb boasts a strong capital position, with sufficient cash generation capabilities. It had operating cash flow of \$3.7 billion in the first half of 2020, up 37% year over year. The company's debt has been increasing since 2017. At the end of the second quarter of 2020, debt to capital was 23%, up from 22.7% at the end of 2019. Also, long-term debt to capital of 20.9% compares unfavorably with the industry's measure of 1.3%.

Nonetheless, 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. The company enjoys strong credit ratings from credit rating agencies. Also the company had short-term debt amounting to \$1.3 million as of Jun 30, 2020 and cash and cash equivalents came of \$1.6 billion as of Jun 30, 2020. This suggests that the company has sufficient cash reserves to meet its short-term debt obligations.

- ▲ The strong capital and liquidity position enable Chubb to enhance its shareholder value via share buyback and dividend payouts. In May 2020, the company increased its annual dividend by 4%, which marked the 27th straight year of dividend hike. Notably, Chubb has more than doubled its quarterly dividend since 2010. The company's current dividend yield is 2.5%, better than the industry average of 0.5%, which makes the stock an attractive pick for yield seeking investors.

Though the company returned \$1.019 billion to shareholders in the first half of 2020, it decided to stall share repurchase activity amid this pandemic to reserve capital for both risk and opportunity.

Chubb is better positioned to capitalize on upcoming growth opportunities. Moreover, the combined company's growth and earnings power will be more than the sum of individual strengths.

Reasons To Sell:

- ▼ Chubb has substantial exposure to loss from natural disasters, man-made catastrophes and other catastrophic events, which have been inducing volatility in its underwriting results over a considerable period of time and lowering combined ratio. Chubb incurred catastrophe loss of \$1.5 billion in the second quarter, up 583.3% year over year, attributable to COVID-19 , severe weather-related events in the United States, as well as civil unrest-related losses in the country. This resulted in underwriting loss of \$929 million against the year-ago underwriting income of \$727 million, with combined ratio deteriorating 2220 basis points. Chubb estimates the COVID 19 pandemic and its impact on economic growth to weigh on its operating income and revenues in the near term.
- ▼ After witnessing substantial improvement in net investment income over the last few years, the same fell 0.4% in the first half of 2020, owing to lower reinvestment rates on new and reinvested assets, lower rates on floating rate obligations, and adverse foreign exchange. Given a low rate environment, Chubb expects net investment income to remain under pressure in the near term. The company estimates adjusted net investment income run rate to be in the range of \$850 million to \$860 million, down from the earlier guidance of \$885 million to \$890 million.
- ▼ Chubb has been witnessing a noticeable increase in expenses, primarily due to higher loss and loss expenses, policy acquisition costs, administrative expenses and policy benefits over the last few years (with the exception of 2015). Total expenses increased 20.2% in the first half of 2020. Higher expenses weighed on the company's margins. Net margin contracted 130 bps in the first quarter followed by another 490 bps in the second quarter of 2020. The company estimates increase in insurance claims from COVID 19 pandemic to weigh on operating income.

Chubb's exposure to cat loss inducing underwriting volatility, escalating expenses weighing on margin expansion and muted investment income remain concerns.

Last Earnings Report

Chubb Q2 Earnings Surpass Estimates, Premiums Up Y/Y

Chubb reported second-quarter 2020 core operating loss of 56 cents per share, which is narrower than the Zacks Consensus Estimate of a loss of 66 cents per share. Notably, the company had reported core operating income of \$2.60 per share in the prior-year quarter.

An after-tax charge related to the COVID-19 pandemic of \$1.2 billion adversely impacted the quarterly results.

Quarter Ending 06/2020

Report Date	Jul 28, 2020
Sales Surprise	-1.87%
EPS Surprise	15.15%
Quarterly EPS	-0.56
Annual EPS (TTM)	7.10

Quarter in Detail

Net premiums written inched up 0.1% year over year to nearly \$8.4 billion in the quarter. Net premiums earned rose 3% year over year to \$8.1 billion. The upside can primarily be attributed to rate increases in the company's North America and international operations. However, growth in premiums has been partially offset by the pandemic, which impacted the company's consumer business including accident and health, and travel and personal lines.

Net investment income was \$827 million, down 3.7% year over year.

Property and casualty (P&C) reported underwriting loss of \$929 million, against the year-ago underwriting income of \$727 million. Global P&C underwriting loss excluding Agriculture was \$960 million, which compares unfavorably with the year-ago underwriting income of \$689 million.

Chubb incurred after-tax catastrophe loss of \$1.5 billion in the second quarter, soaring 583.3% year over year.

Segmental Update

North America Commercial P&C Insurance: Net premiums written increased 5.3% year over year to \$3.7 billion. Combined ratio deteriorated 3080 basis points (bps) to 117.3%.

North America Personal P&C Insurance: Net premiums written climbed 1.4% year over year to \$1.3 billion. Combined ratio improved 150 bps to 88.8%.

North America Agricultural Insurance: Net premiums written declined 1.1% from the year-ago quarter to \$461 million. Combined ratio deteriorated 170 bps to 91.8%.

Overseas General Insurance: Net premiums written of \$2.02 billion declined 10.5% year over year. The downside is primarily due to the negative impact of the pandemic on particular P&C personal lines coverages and A&H and travel insurance. Combined ratio deteriorated 1630 bps to 107.1%.

Global Reinsurance: Net premiums written advanced 4.6% from the year-ago quarter to \$207 million, primarily due to positive rate increases and new business written. Combined ratio improved 1110 bps to 76.6%.

Life Insurance: Net premiums written were up 7% year over year to \$619 million.

Financial Update

Cash balance of \$1.6 billion as of Jun 30, 2020 inched up 1.3% from the 2019-end level.

Total shareholders' equity decreased 1% from the level at 2019 end to \$54.8 billion as of Jun 30, 2020.

As of Jun 30, 2020, book value per share of \$121.32 was down 0.9% from the figure as of Dec 31, 2019.

Operating cash flow was nearly \$2 billion.

Recent News

Chubb Estimates Q2 Catastrophe Loss of \$1.8 Billion - Jul 6, 2020

Chubb released its global net catastrophe loss estimate of \$1.807 billion pretax or \$1.15 billion after tax, net of reinsurance including reinstatement premiums. The loss can be attributed to the COVID-19 pandemic, severe weather-related events in the United States, as well as civil unrest-related losses in the United States.

While COVID-19 pandemic losses are expected to amount to \$1.365 billion pre-tax (\$1.157 billion after tax), natural catastrophe losses amount to \$312 million pre-tax (\$249 million after-tax). Civil unrest-related losses are expected to be \$130 million pre-tax (\$104 million after tax).

Valuation

Chubb shares are down nearly 18.2% in the year-to-date period and 14.3% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Finance sector are down 14% and 18.4% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and sector are down 4.6% and 9.1%, respectively.

The S&P 500 index is up 1.7% in the year-to-date period and 15.4% in the past year.

The stock is currently trading at 1.05x trailing 12-month book value, which compares to 1.3x for the Zacks sub-industry, 2.39x for the Zacks sector and 4.427 for the S&P 500 index.

Over the past five years, the stock has traded as high as 1.43x and as low as 0.77x, with a 5-year median of 1.26x. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$135 price target reflects 1.11x book value.

The table below shows summary valuation data for CB

Valuation Multiples - CB					
		Stock	Sub-Industry	Sector	S&P 500
P/B TTM	Current	1.05	1.3	2.39	4.47
	5-Year High	1.43	1.67	2.91	4.56
	5-Year Low	0.77	0.93	1.72	2.83
	5-Year Median	1.26	1.46	2.53	3.72
P/S F12M	Current	1.57	1.7	6.05	3.59
	5-Year High	2.9	11.26	6.66	3.59
	5-Year Low	1.16	1.39	4.97	2.53
	5-Year Median	1.97	1.85	6.06	3.04
P/E F12M	Current	13.62	24.71	16.28	22.64
	5-Year High	20.57	31.55	16.28	22.64
	5-Year Low	8.52	21.01	11.59	15.25
	5-Year Median	12.70	25.55	14.21	17.55

As of 07/31/2020

Industry Analysis Zacks Industry Rank: Bottom 31% (174 out of 253)



Top Peers

Company (Ticker)	Rec	Rank
The Allstate Corporation (ALL)	Neutral	3
Axis Capital Holdings Limited (AXS)	Neutral	4
Berkshire Hathaway Inc. (BRK.B)	Neutral	2
Cincinnati Financial Corporation (CINF)	Neutral	3
The Hartford Financial Services Group, Inc. (HIG)	Neutral	3
The Progressive Corporation (PGR)	Neutral	3
The Travelers Companies, Inc. (TRV)	Neutral	4
CNA Financial Corporation (CNA)	Underperform	4

Industry Comparison Industry: Insurance - Property And Casualty				Industry Peers		
	CB	X Industry	S&P 500	CNA	PGR	TRV
Zacks Recommendation (Long Term)	Neutral	-	-	Underperform	Neutral	Neutral
Zacks Rank (Short Term)	3	-	-	4	3	4
VGM Score	C	-	-	C	B	B
Market Cap	57.43 B	1.11 B	22.59 B	9.04 B	52.88 B	28.93 B
# of Analysts	7	2	14	2	9	8
Dividend Yield	2.45%	1.36%	1.83%	4.44%	0.44%	2.97%
Value Score	B	-	-	B	B	A
Cash/Price	0.09	0.25	0.07	0.16	0.09	0.22
EV/EBITDA	10.11	5.41	12.94	7.70	9.50	3.31
PEG Ratio	1.73	2.01	3.04	2.73	2.46	2.01
Price/Book (P/B)	1.05	1.06	3.17	0.87	3.17	1.07
Price/Cash Flow (P/CF)	10.80	10.10	12.51	9.44	12.33	3.74
P/E (F1)	17.29	14.53	21.87	13.65	13.99	13.41
Price/Sales (P/S)	1.60	0.75	2.44	0.87	1.30	0.92
Earnings Yield	5.78%	6.32%	4.31%	7.33%	7.15%	7.45%
Debt/Equity	0.25	0.23	0.75	0.26	0.32	0.26
Cash Flow (\$/share)	11.78	3.12	6.94	3.53	7.33	30.61
Growth Score	C	-	-	D	B	D
Hist. EPS Growth (3-5 yrs)	-0.23%	3.24%	10.85%	12.28%	39.54%	-5.11%
Proj. EPS Growth (F1/F0)	-27.23%	-9.42%	-7.75%	-32.03%	-3.93%	-11.11%
Curr. Cash Flow Growth	0.06%	3.79%	5.39%	12.18%	48.16%	3.77%
Hist. Cash Flow Growth (3-5 yrs)	8.77%	4.78%	8.55%	0.21%	24.96%	-1.19%
Current Ratio	0.33	0.45	1.31	0.23	0.50	0.40
Debt/Capital	20.93%	19.59%	44.32%	20.55%	24.45%	20.74%
Net Margin	6.10%	4.25%	10.44%	5.76%	10.85%	5.81%
Return on Equity	5.98%	6.57%	14.73%	8.40%	28.79%	7.20%
Sales/Assets	0.20	0.31	0.52	0.17	0.72	0.28
Proj. Sales Growth (F1/F0)	2.59%	0.00%	-1.95%	0.72%	9.07%	-0.03%
Momentum Score	F	-	-	C	B	B
Daily Price Chg	-1.47%	-1.03%	-0.92%	-1.49%	-0.45%	-0.79%
1 Week Price Chg	-0.76%	0.13%	0.37%	0.86%	0.26%	-0.74%
4 Week Price Chg	1.33%	2.58%	3.81%	6.49%	14.02%	1.74%
12 Week Price Chg	28.54%	10.51%	11.93%	16.64%	20.57%	19.44%
52 Week Price Chg	-15.82%	-19.38%	-1.92%	-29.37%	12.76%	-21.51%
20 Day Average Volume	1,587,494	106,676	1,887,986	216,583	2,485,181	1,333,501
(F1) EPS Est 1 week change	-1.51%	0.00%	0.00%	0.00%	0.00%	0.91%
(F1) EPS Est 4 week change	-30.43%	0.00%	0.38%	-20.00%	4.40%	-7.07%
(F1) EPS Est 12 week change	-31.51%	-12.38%	-0.07%	-30.29%	2.37%	-9.07%
(Q1) EPS Est Mthly Chg	-1.34%	0.00%	0.16%	0.00%	3.86%	53.83%

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	B
Growth Score	C
Momentum Score	F
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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