

Chubb Limited (CB)

\$152.87 (As of 01/08/20)

Price Target (6-12 Months): **\$161.00**

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:B

Value: B

Growth: C

Momentum: D

Summary

Shares of Chubb have outperformed the industry in the past one year. 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. Increased scales, efficiencies and a solid balance sheet lend a competitive edge. Chubb estimates solid growth in Overseas General operations. Strong capital position helps it to boost shareholders' value and invest in strategic growth initiatives. It effectively deploys capital through share repurchases and dividend payouts. However, exposure to catastrophe loss remains a concern as it induces volatility in underwriting profitability. Elevated expenses due to higher loss, administrative expenses also induces margin contraction. A high debt level and lower leverage ratio is also a concern.

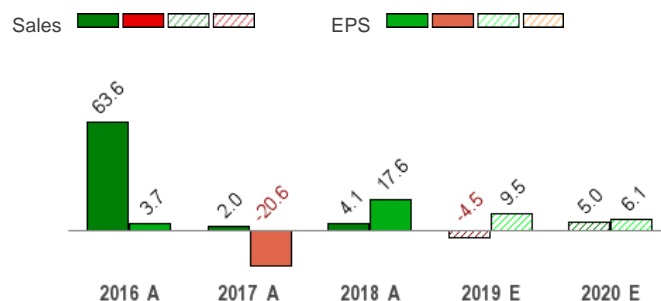
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$162.44 - \$126.93
20 Day Average Volume (sh)	1,314,930
Market Cap	\$69.3 B
YTD Price Change	-1.8%
Beta	0.67
Dividend / Div Yld	\$3.00 / 2.0%
Industry	Insurance - Property and Casualty
Zacks Industry Rank	Top 29% (73 out of 254)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	2.3%
Last Sales Surprise	8.4%
EPS F1 Est- 4 week change	-0.3%
Expected Report Date	02/04/2020
Earnings ESP	0.0%
P/E TTM	15.5
P/E F1	13.9
PEG F1	1.4
P/S TTM	2.0

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2020	7,877 E	8,488 E	9,028 E	8,520 E	33,896 E
2019	8,012 A	8,980 A	9,257 A	8,088 E	32,281 E
2018	7,880 A	8,607 A	8,890 A	8,440 A	33,803 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2020	\$2.68 E	\$2.67 E	\$2.66 E	\$2.85 E	\$10.97 E
2019	\$2.54 A	\$2.60 A	\$2.70 A	\$2.51 E	\$10.34 E
2018	\$2.34 A	\$2.68 A	\$2.41 A	\$2.02 A	\$9.44 A

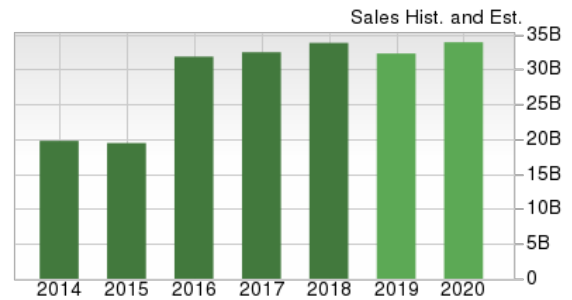
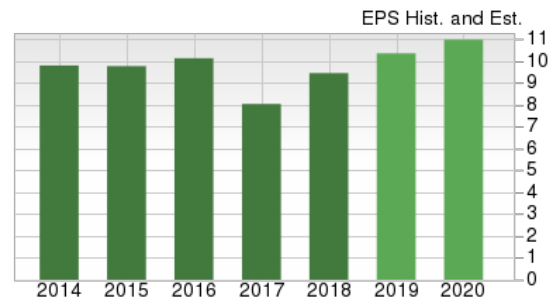
*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 01/08/2020. The reports text is as of 01/09/2020.

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 (18% of 2018 premiums)** segment offers a broad range of retail, and wholesale and specialty products. **Overseas General (35%)** 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 (22%)** includes the business written by Chubb Personal Risk Services division comprising Chubb high net worth personal lines business and ACE Private Risk Services. **Life (18%)** segment offers traditional life reinsurance and life insurance products in Thailand, Vietnam, the United Arab Emirates, Taiwan, China, Egypt, among others. **North America Agriculture (5%)** 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 gained 18% in a year's time, outperforming the industry's increase of 10.4%. The company's strong fundamentals will keep the rally in the stock alive.
- ▲ 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.
- ▲ Chubb continues to witness substantial improvement in net investment income since 2016. This momentum continued in the first nine months of 2019 with adjusted net investment income up 2.4% year over year. Investment results should continue to benefit from growth in invested assets and solid cash flows. The company estimates adjusted net investment income run rate to be \$900 million going forward.
- ▲ Chubb boasts a strong capital position, with sufficient cash generation capabilities. The company's free cash flow per share, a measure of financial flexibility, stands at \$14.2, higher than the industry average of \$9.1. Its debt-to-capital ratio has also improved over the years. The company remains optimistic about its strong cash balance that can meet debt burdens and reduce debt levels with an improving debt-to-total capital ratio being anticipated in the future.
- ▲ The strong capital and liquidity position enable Chubb to enhance its shareholder value via share buyback and dividend payouts. In May 2019, the company increased its annual dividend by 2.5%, which marked the 26th straight year of dividend hike. Notably, Chubb has more than doubled its quarterly dividend since 2010. The company's current dividend yield is 1.9%, better than the industry average of 0.4%, which makes the stock an attractive pick for yield seeking investors.

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's exposure to cat loss induces underwriting volatility, escalating expenses weighing on margin expansion and high debt level with deteriorating leverage ratio are concerns.
- ▼ Chubb has a substantial exposure to loss from natural disasters, man-made catastrophes and other catastrophic events, which has been inducing volatility in its underwriting results over a considerable period of time and deterioration in combined ratio. In the first nine months of 2019, the company incurred catastrophe losses of \$759 million, down 27% year over year. These losses also unfavorably impacted the combined ratio by 3.5%, though this was lower than the year-ago deterioration of 5%. Exposure to cat occurrences will always remain a concern as natural disasters can potentially affect results. Significant catastrophic events in the near future might widen the company's losses further, keeping the combined ratio under pressure.
- ▼ 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). Higher expenses induced margin contraction of 970 bps from 2010 to 2017. The company should strive to control costs, else the operating margin expansion will be largely affected, going forward.
- ▼ Long-term debt has increased more than three times in the last five years inducing higher interest expenses that have risen nearly three times in the last five years. Also, times interest earned, a ratio that measures the company's ability to pay its interest expenses has declined to 8.5 in 2018 from 13.5 in 2014. Though interest expenses dropped 15.7% in the first nine months of 2019, the company's current times interest earned of 8.7 compares unfavorably with the industry average of 9.9.

Chubb's exposure to cat loss inducing underwriting volatility, escalating expenses weighing on margin expansion and high debt level with deteriorating leverage ratio are concerns.

Last Earnings Report

Chubb's Q3 Earnings Beat Estimates, Premiums Rise Y/Y

Chubb reported third-quarter 2019 core operating income of \$2.70 per share, which outpaced the Zacks Consensus Estimate by 2.3%. The upside was driven by higher premium revenues. The bottom line improved 12% from the year-ago quarter.

The company also benefited from an improved pricing and underwriting environment as well as product, customer and distribution-related growth initiatives in the United States, Asia and Latin America.

Quarter Ending **09/2019**

Report Date	Oct 29, 2019
Sales Surprise	8.37%
EPS Surprise	2.27%
Quarterly EPS	2.70
Annual EPS (TTM)	9.86

Quarter in Detail

Net premiums written improved 6.3% year over year to about \$8.6 billion in the quarter. Net premiums earned rose 5.3% to \$8.3 billion.

Net investment income was \$873 million, up 6.1%.

Property and casualty (P&C) underwriting income was \$754 million, up 12.6% from the year-ago quarter. Global P&C underwriting income, which excludes Agriculture, was \$753 million, up 27.7%.

Combined ratio improved 70 basis points (bps) to 90.2%, reflecting lower catastrophe losses and higher crop insurance losses.

Chubb reported after-tax catastrophe loss of \$191 million in the third quarter, plunging 48.7% year over year.

Segment Update

North America Commercial P&C Insurance: Net premiums written increased 7.9% year over year to about \$3.5 billion. Combined ratio deteriorated 110 bps to 86.9%.

North America Personal P&C Insurance: Net premiums written slipped 2.7% year over year to \$1.3 billion. Combined ratio improved 1850 bps to 83.1%.

North America Agricultural Insurance: Net premiums written increased 6.2% from the year-ago quarter to \$938 million. Combined ratio deteriorated 920 bps to 99.9%.

Overseas General Insurance: Net premiums written rose 7.1% year over year to \$2.2 billion. Combined ratio deteriorated 20 bps to 90.5%.

Global Reinsurance: Net premiums written declined 14% from the year-ago quarter to \$141 million. Combined ratio of 87.7% improved 560 bps.

Life Insurance: Net premiums written were up 8.5% year over year to \$612 million on the back of growth in the Asian international life operations.

Financial Update

Cash balance of \$1.5 billion as of Sep 30, 2019 increased 18.5% from 2018 end.

Total shareholders' equity increased 8.5% from 2018 end to \$54.6 billion as of Sep 30, 2019.

Book value per share was \$120.33 as of Sep 30, 2019, up 9.8% from the Dec 31, 2018 figure.

Core operating ROE was 9.5%.

Operating cash flow was \$2.2 billion in the quarter under consideration.

Share Repurchase Update

In the quarter, the company bought back shares worth \$478 million.

Recent News

Chubb Makes \$10M Equity Investment in Africa's ATI – Dec 9, 2019

Chubb recently made an equity investment of \$10 million in Africa-based Trade Insurance Agency (ATI). With this investment, Chubb became the first global property and casualty (P&C) insurer to become a shareholder in Africa's leading multilateral political risk and credit insurer.

Chubb's Subsidiary's Unsecured Notes Get Rating from A.M. Best – Dec 3, 2019

Chubb's subsidiary Chubb INA Holdings Inc.'s EUR 700 million 0.300% senior unsecured notes due 2024 and EUR 700 million 0.875% senior unsecured notes due 2029 have got Long-Term Issue Credit Rating (Long-Term IR) of "a+" from A.M. Best. The perspective of the ratings is stable.

Chubb to Boost Shareholder Value Via Share Buybacks – Nov 21, 2019

Chubb's board of directors recently authorized a share buyback program for returning more value to investors. This latest authorization will allow the company to spend up to \$1.5 billion for repurchasing its common stock. The new buyback program will be effective Dec 31, 2020.

Additionally, Chubb approved a quarterly dividend of 75 cents per share, payable on Jan 10, 2020 to its shareholders of record at the close of business on Dec 20, 2019.

Valuation

Chubb shares are up 18% over the trailing 12-month period. Over the past year, stocks in the Zacks sub-industry and the Zacks Finance sector are up 14.8% and 14.6%, respectively.

The S&P 500 index is up 24.3% in the past year.

The stock is currently trading at 1.27X trailing 12-month book value, which compares to 1.41X for the Zacks sub-industry, 2.82X for the Zacks sector and 4.44X for the S&P 500 index.

Over the past five years, the stock has traded as high as 1.43X and as low as 1.09X, with a 5-year median of 1.26X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$161 price target reflects 1.33X trailing 12-month 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	1.27	1.41	2.82	4.44
	5-Year High	1.43	1.67	2.89	4.45
	5-Year Low	1.09	1.26	1.83	2.85
	5-Year Median	1.26	1.47	2.5	3.61
P/S F12M	Current	2.04	1.67	6.53	3.49
	5-Year High	2.9	11.26	6.61	3.49
	5-Year Low	1.52	1.55	5.2	2.54
	5-Year Median	1.96	1.92	6.04	3
P/E F12M	Current	13.88	26.28	14.74	18.82
	5-Year High	20.57	31.55	16.21	19.34
	5-Year Low	10.71	22.77	12.01	15.17
	5-Year Median	12.60	25.67	13.98	17.44

As of 01/08/2020

Industry Analysis Zacks Industry Rank: Top 29% (73 out of 254)



Top Peers

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

Industry Comparison Industry: Insurance - Property And Casualty				Industry Peers		
	CB Neutral	X Industry	S&P 500	CNA Neutral	PGR Neutral	TRV Neutral
VGM Score	B	-	-	C	B	A
Market Cap	69.28 B	1.93 B	23.84 B	12.11 B	42.79 B	35.26 B
# of Analysts	7	2	13	3	6	7
Dividend Yield	1.96%	1.03%	1.79%	3.14%	0.55%	2.40%
Value Score	B	-	-	B	B	A
Cash/Price	0.06	0.17	0.04	0.15	0.03	0.14
EV/EBITDA	12.54	9.33	13.88	11.66	12.73	4.32
PEG Ratio	1.39	1.42	2.02	2.31	1.85	1.36
Price/Book (P/B)	1.27	1.24	3.33	1.00	3.14	1.38
Price/Cash Flow (P/CF)	13.20	13.48	13.76	14.17	14.75	4.75
P/E (F1)	13.94	13.81	18.76	11.53	13.55	12.61
Price/Sales (P/S)	2.00	1.02	2.63	1.17	1.18	1.13
Earnings Yield	7.18%	7.24%	5.32%	8.68%	7.38%	7.93%
Debt/Equity	0.24	0.21	0.72	0.22	0.32	0.26
Cash Flow (\$/share)	11.58	3.05	6.94	3.15	4.96	28.75
Growth Score	C	-	-	D	B	D
Hist. EPS Growth (3-5 yrs)	-1.51%	-0.55%	10.56%	7.67%	26.87%	-5.81%
Proj. EPS Growth (F1/F0)	6.06%	7.23%	7.46%	9.44%	3.51%	14.25%
Curr. Cash Flow Growth	12.66%	9.94%	14.83%	-11.69%	55.42%	8.43%
Hist. Cash Flow Growth (3-5 yrs)	8.90%	7.23%	9.00%	-5.23%	19.35%	-1.60%
Current Ratio	0.31	0.44	1.23	0.23	0.36	0.38
Debt/Capital	19.94%	17.79%	42.99%	18.09%	24.69%	20.39%
Net Margin	10.48%	5.34%	11.08%	6.19%	8.69%	7.57%
Return on Equity	8.60%	6.81%	17.16%	7.72%	26.09%	9.13%
Sales/Assets	0.20	0.31	0.55	0.18	0.72	0.29
Proj. Sales Growth (F1/F0)	5.00%	5.00%	4.16%	3.98%	10.23%	5.63%
Momentum Score	D	-	-	D	F	A
Daily Price Chg	-0.68%	0.00%	0.39%	0.43%	0.59%	1.07%
1 Week Price Chg	-0.03%	0.86%	-0.30%	1.84%	3.01%	0.16%
4 Week Price Chg	0.59%	0.14%	2.38%	1.73%	2.85%	1.47%
12 Week Price Chg	-1.15%	0.35%	6.40%	-4.86%	0.44%	-4.18%
52 Week Price Chg	19.47%	10.90%	22.97%	0.84%	19.40%	15.11%
20 Day Average Volume	1,314,930	107,795	1,610,101	211,631	2,965,728	1,059,582
(F1) EPS Est 1 week change	-0.30%	0.00%	0.00%	0.00%	-0.10%	0.12%
(F1) EPS Est 4 week change	-0.30%	0.00%	0.00%	0.00%	-2.62%	0.12%
(F1) EPS Est 12 week change	-1.10%	-0.97%	-0.50%	-4.92%	-3.88%	-5.69%
(Q1) EPS Est Mthly Chg	0.00%	0.00%	0.00%	0.00%	-3.99%	0.42%

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	D
VGM Score	B

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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