

Chubb Limited (CB)

\$162.73 (As of 02/07/20)

Price Target (6-12 Months): **\$171.00**

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: C

Growth: C

Momentum: A

Summary

Chubb's earnings of \$2.28 per share beat the Zacks Consensus Estimate by 8.6%, and grew 12.9% year over year driven by higher premiums. The company's shares have outperformed the industry in a year's time. It 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. 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 and administrative expenses weigh on margins. Exposure of its crop business to weather related changes induces earnings volatility.

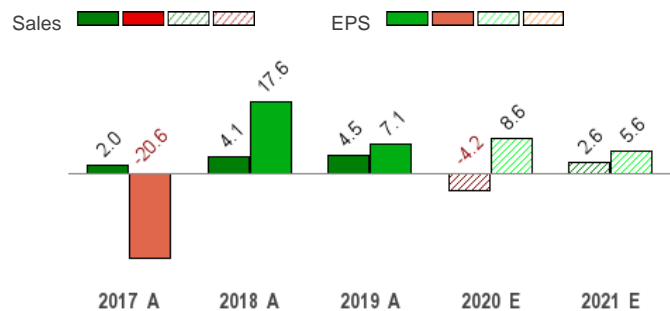
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$167.74 - \$128.58
20 Day Average Volume (sh)	1,702,878
Market Cap	\$73.7 B
YTD Price Change	4.5%
Beta	0.65
Dividend / Div Yld	\$3.00 / 1.8%
Industry	Insurance - Property and Casualty
Zacks Industry Rank	Top 29% (73 out of 254)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	8.6%
Last Sales Surprise	11.1%
EPS F1 Est- 4 week change	-0.2%
Expected Report Date	NA
Earnings ESP	0.0%
P/E TTM	16.1
P/E F1	14.8
PEG F1	1.5
P/S TTM	2.1

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	7,962 E	8,765 E	9,210 E	8,610 E	34,690 E
2020	7,861 E	8,423 E	9,014 E	8,494 E	33,816 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	\$2.85 E	\$2.74 E	\$2.76 E	\$3.16 E	\$11.59 E
2020	\$2.69 E	\$2.65 E	\$2.61 E	\$2.97 E	\$10.98 E
2019	\$2.54 A	\$2.60 A	\$2.70 A	\$2.28 A	\$10.11 A

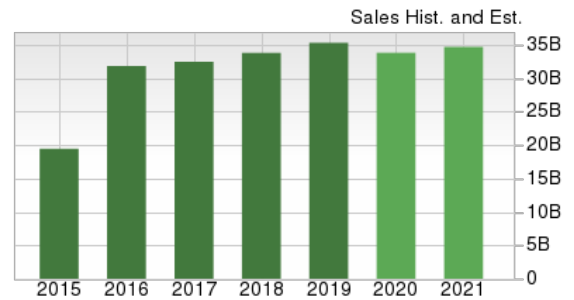
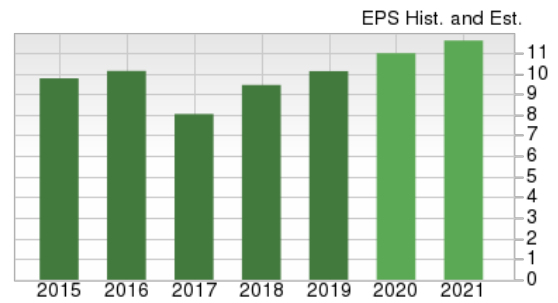
*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 02/07/2020. The reports text is as of 02/10/2020.

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 outperformed its industry in a year's time. 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 2019 with adjusted net investment income up 1.5% 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 in the range of \$885 million to \$895 million.
- ▲ 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 \$2.7. 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 1.8%, 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 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 2019, the company incurred catastrophe losses of \$1.18 billion, down 28% year over year. These losses also unfavorable impacted the combined ratio by 4.1%, though this was lower than the year-ago deterioration of 5.9%. 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 have weighed on the company's margins.
- ▼ Chubb's agricultural insurance business or the crop insurance carries catastrophe like exposures. In 2019, this business suffered from yield shortfalls due to difficult growing conditions. This led to a 76.7% decline in agriculture underwriting income to \$89 million pre-tax in 2019.

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 Earnings Beat Estimates in Q4, Increase Y/Y

Chubb Limited's fourth-quarter 2019 core operating income of \$2.28 per share outpaced the Zacks Consensus Estimate by 8.6%. This upside was driven by higher premium revenues. The bottom line also improved 12.9% from the year-ago quarter.

Quarter in Detail

Net premiums written improved 9% year over year to \$7.9 billion in the quarter. Net premiums earned rose 6.3% to \$7.9 billion.

Net investment income was \$858 million, up 1.2%.

Property and casualty (P&C) underwriting income was \$533 million, up 12% from the year-ago quarter. Global P&C underwriting income excluding Agriculture was \$556 million, up 76.3%.

Chubb incurred after-tax catastrophe loss of \$353 million in the fourth quarter, plunging 30.2% year over year.

Segmental Update

North America Commercial P&C Insurance: Net premiums written increased 9.4% year over year to \$3.4 billion. Combined ratio contracted 870 bps to 82.6%.

North America Personal P&C Insurance: Net premiums written climbed 9.2% year over year to \$1.1 billion. Combined ratio expanded 580 bps to 99.6%.

North America Agricultural Insurance: Net premiums written improved 40.4% from the year-ago quarter to \$276 million. Combined ratio expanded 5590 bps to 105.4%.

Overseas General Insurance: Net premiums written rose 6.3% year over year to \$2.3 billion. Combined ratio expanded 100 bps to 93.1%.

Global Reinsurance: Net premiums written declined 6% from the year-ago quarter to \$109 million. Combined ratio of 94.6% contracted 7230 bps.

Life Insurance: Net premiums written were up 6.9% year over year to \$622 million on the back of growth in the Asian international life operations.

Financial Update

Cash balance of \$1.5 billion as of Dec 31, 2019 augmented 23.3% from the 2018-end level.

Total shareholders' equity increased 10% from the level at 2018 end to \$55.3 billion as of Dec 31, 2019.

Book value per share as of Dec 31, 2019 was up 11.7% from the figure as of Dec 31, 2018.

Core operating ROE was 7.9%.

Operating cash flow was \$1.4 billion in the quarter under consideration.

Share Repurchase Update

In the quarter, the company bought back shares worth \$310 million.

Full-Year Update

Core operating income of the year came in at \$10.11 for 2019, up 7.1% year over year.

P&C net premiums written were \$29.9 billion, up 5.6% year over year.

Quarter Ending 12/2019

Report Date	Feb 04, 2020
Sales Surprise	11.05%
EPS Surprise	8.57%
Quarterly EPS	2.28
Annual EPS (TTM)	10.12

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 24.6% over the trailing 12-month period. Over the past year, stocks in the Zacks sub-industry and the Zacks Finance sector are up 13% and 10.3%, respectively.

The S&P 500 index is up 21.9% in the past year.

The stock is currently trading at 1.33X trailing 12-month book value, which compares to 1.44X for the Zacks sub-industry, 2.83X for the Zacks sector and 4.29X 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 \$171 price target reflects 1.40X 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	1.33	1.44	2.83	4.29
	5-Year High	1.43	1.67	2.89	4.42
	5-Year Low	1.09	1.26	1.83	2.85
	5-Year Median	1.26	1.47	2.51	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 02/07/2020

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



Top Peers

The Allstate Corporation (ALL)	Neutral
Axis Capital Holdings Limited (AXS)	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

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	A	B
Market Cap	73.75 B	1.74 B	24.00 B	12.72 B	48.68 B	35.11 B
# of Analysts	8	2	13	3	10	9
Dividend Yield	1.84%	1.00%	1.78%	2.99%	0.48%	2.41%
Value Score	C	-	-	B	B	C
Cash/Price	0.06	0.18	0.04	0.15	0.04	0.16
EV/EBITDA	13.26	9.70	14.07	12.21	14.28	4.10
PEG Ratio	1.48	1.74	2.04	2.42	2.09	1.53
Price/Book (P/B)	1.33	1.22	3.28	1.05	3.56	1.35
Price/Cash Flow (P/CF)	14.91	13.93	13.58	14.89	16.78	4.44
P/E (F1)	14.82	13.95	18.86	12.12	15.35	13.12
Price/Sales (P/S)	2.09	1.05	2.65	1.22	1.25	1.11
Earnings Yield	6.75%	7.11%	5.30%	8.26%	6.52%	7.62%
Debt/Equity	0.24	0.21	0.71	0.22	0.32	0.25
Cash Flow (\$/share)	10.91	3.05	6.89	3.15	4.96	30.61
Growth Score	C	-	-	D	A	A
Hist. EPS Growth (3-5 yrs)	-1.51%	-0.55%	10.80%	7.67%	31.71%	-5.01%
Proj. EPS Growth (F1/F0)	8.58%	12.38%	7.23%	9.44%	-19.27%	8.00%
Curr. Cash Flow Growth	-7.34%	9.94%	9.51%	-11.69%	55.42%	3.77%
Hist. Cash Flow Growth (3-5 yrs)	8.90%	7.23%	8.55%	-5.23%	19.35%	-1.19%
Current Ratio	0.34	0.44	1.20	0.23	0.42	0.39
Debt/Capital	19.94%	18.09%	42.90%	18.09%	25.31%	20.18%
Net Margin	12.61%	5.43%	11.76%	6.19%	10.17%	8.30%
Return on Equity	8.59%	6.81%	16.98%	7.72%	30.68%	10.03%
Sales/Assets	0.20	0.31	0.54	0.18	0.75	0.29
Proj. Sales Growth (F1/F0)	-4.24%	4.13%	4.15%	4.41%	9.98%	4.10%
Momentum Score	A	-	-	B	C	D
Daily Price Chg	-0.30%	-0.26%	-0.64%	-0.36%	0.24%	-0.36%
1 Week Price Chg	-0.01%	-1.09%	-2.60%	-0.27%	5.13%	-2.34%
4 Week Price Chg	5.70%	0.17%	0.72%	3.79%	12.60%	-1.17%
12 Week Price Chg	7.52%	1.95%	4.69%	5.23%	14.13%	1.54%
52 Week Price Chg	24.58%	7.30%	16.01%	0.54%	22.95%	7.30%
20 Day Average Volume	1,702,878	93,795	1,961,054	146,520	3,153,807	1,446,753
(F1) EPS Est 1 week change	0.29%	0.00%	0.00%	0.00%	0.09%	0.00%
(F1) EPS Est 4 week change	-0.21%	0.00%	-0.00%	0.00%	0.46%	-4.21%
(F1) EPS Est 12 week change	-0.59%	0.00%	-0.16%	0.00%	-2.49%	-6.00%
(Q1) EPS Est Mthly Chg	0.57%	0.00%	0.00%	0.00%	1.15%	-2.95%

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	A
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.

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