

Chubb Limited (CB)

\$101.95 (As of 05/08/20)

Price Target (6-12 Months): **\$107.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 02/07/19)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

4-Sell

Zacks Style Scores:

VGM:A

Value: B

Growth: B

Momentum: A

Summary

Chubb 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. Chubb effectively deploys capital through share repurchases and dividend payouts. Shares of Chubb have underperformed the industry year to date. However, the company anticipates revenue and earnings in the short term to be affected by the impact of the COVID-19 pandemic. Exposure to cat loss remains a concern as it induces volatility in underwriting profitability. Elevated expenses due to higher loss and administrative expenses weigh on margins. Chubb's first-quarter bottom-line beat estimates and benefited from high premium revenues and strong net investment income.

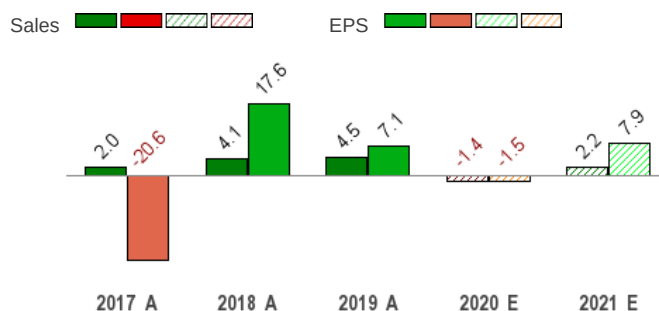
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$167.74 - \$87.35
20 Day Average Volume (sh)	3,159,306
Market Cap	\$46.0 B
YTD Price Change	-34.5%
Beta	0.68
Dividend / Div Yld	\$3.00 / 2.9%
Industry	Insurance - Property and Casualty
Zacks Industry Rank	Top 47% (120 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	2.7%
Last Sales Surprise	1.0%
EPS F1 Est- 4 week change	-8.3%
Expected Report Date	NA
Earnings ESP	0.0%
P/E TTM	9.9
P/E F1	10.2
PEG F1	1.0
P/S TTM	1.3

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	8,216 E	8,719 E	9,124 E	8,589 E	35,591 E
2020	8,600 A	8,713 E	9,163 E	8,613 E	34,810 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	\$2.71 E	\$2.61 E	\$2.57 E	\$2.94 E	\$10.75 E
2020	\$2.68 A	\$2.03 E	\$2.46 E	\$2.77 E	\$9.96 E
2019	\$2.54 A	\$2.60 A	\$2.70 A	\$2.28 A	\$10.11 A

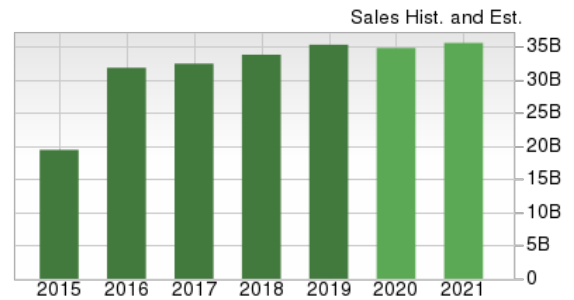
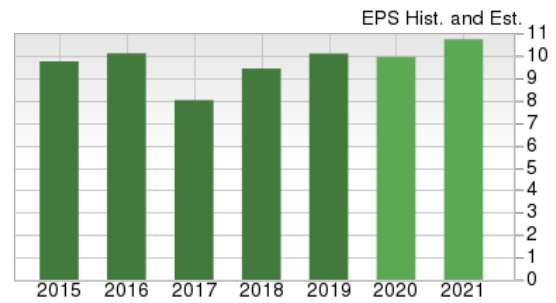
*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 05/08/2020. The reports text is as of 05/11/2020.

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 34.5% year to date, wider than the industry's loss of 23% over the same time frame. Nonetheless, the company's 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.

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.

- ▲ 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.

Though Chubb expects growth momentum to continue with improved rate environment, the company apprehends the impact of the COVID-19 pandemic and its effect on the economy to weigh on growth going forward. Chubb anticipates lowered exposure in travel insurance, A&H discretionary purchases, automobile insurance and commercial lines while premium revenues are likely to be affected in credit, surety and workers' compensation lines of business.

- ▲ Chubb continues to witness substantial improvement in net investment income since 2016. This momentum continued through the first quarter of 2020 with adjusted net investment income up 3% 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. The company bought a fair amount of high-quality equities and increased its exposure to investment-grade corporate bonds.
- ▲ Chubb boasts a strong capital position, with sufficient cash generation capabilities. It had operating cash flow of \$1.7 billion in the first quarter of 2020. The company's debt has been increasing since 2017. At the end of the first quarter 2020, debt to capital was 23.7%, up from 22.7% at the end of 2019. Also, long-term debt to capital of 23.7% compares unfavorably with the industry's measure of 19.6%. However, times interest earned, a measure to identify the company ability to service debt stood at 9.3% in the first quarter, up from the 2017 level of 7.1% but down sequentially from 10.5% in 2019.

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 has short-term debt amounting to \$1.4 billion as of Mar 31, 2020 and cash and cash equivalents came in at \$1.5 billion as of Mar 31, 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 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 2.9%, better than the industry average of 0.5%, which makes the stock an attractive pick for yield seeking investors.

Though the company returned \$666 million to shareholders in the first quarter of 2020, it decided to stall share repurchase activity amid this pandemic to reserve capital for both risk and opportunity.

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. However, catastrophe loss for the first quarter of 2020 was \$199 million, lower than \$201 million incurred in the year-ago quarter. First-quarter loss includes \$13 million pre-tax related to the COVID-19 pandemic. Chubb estimates the COVID 19 pandemic and its impact on economic growth to weigh on its operating income and revenues in the second as well as subsequent quarters.
- ▼ 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 8.7% in the first quarter of 2020. Higher expenses weighed on the company's margins. The company estimates increase in insurance claims from COVID 19 pandemic to weigh on operating income.
- ▼ 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. Underwriting income further plunged 80.5% year over year in the first quarter of 2020.

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 Q1 Earnings Beat Estimates, Premiums up Y/Y

Chubb Limited reported first-quarter 2020 core operating income of \$2.68 per share, which outpaced the Zacks Consensus Estimate by 2.6%. The bottom line also improved 5.5% from the prior-year quarter. This upside can primarily be attributed to high premium revenues and strong net investment income.

Quarter in Detail

Net premiums written improved 9.1% year over year to nearly \$8 billion in the quarter. Net premiums earned rose 9.2% to \$7.8 billion.

Net investment income was \$861 million, up 3% year over year.

Property and casualty (P&C) underwriting income was \$778 million, up 9.3% from the year-ago quarter. Global P&C underwriting income excluding Agriculture was \$764 million, up 19.5% year over year.

Chubb incurred after-tax catastrophe loss of \$199 million in the first quarter, down 1% year over year.

Segmental Update

North America Commercial P&C Insurance: Net premiums written increased 10.2% year over year to \$3.3 billion. Combined ratio deteriorated 20 bps to 86.8%.

North America Personal P&C Insurance: Net premiums written climbed 4.8% year over year to \$1.1 billion. Combined ratio improved 850 bps to 83%.

North America Agricultural Insurance: Net premiums written improved 21.2% from the year-ago quarter to \$157 million. Combined ratio came in at 84.8%.

Overseas General Insurance: Net premiums written rose 8.5% year over year to \$2.6 billion. Combined ratio deteriorated 120 bps to 93.5%.

Global Reinsurance: Net premiums written advanced 8.4% from the year-ago quarter to \$218 million. Combined ratio improved 70 bps to 76.1%.

Life Insurance: Net premiums written were up 11.4% year over year to \$645 million on the back of growth in the Asian international life operations.

Financial Update

Cash balance of \$1.5 billion as of Mar 31, 2020 declined 1.6% from the 2019-end level.

Total shareholders' equity plunged 5.7% from the level at 2019 end to \$52.2 billion as of Mar 31, 2020.

Book value per share as of Mar 31, 2020 was down 5.5% from the figure as of Dec 31, 2019.

Core operating ROE was 9.4%.

Operating cash flow was \$1.7 billion.

Share Repurchase Update

In the quarter, the company bought back shares worth \$326 million.

Quarter Ending 03/2020

Report Date	Apr 21, 2020
Sales Surprise	0.95%
EPS Surprise	2.68%
Quarterly EPS	2.68
Annual EPS (TTM)	10.26

Recent News

Chubb Allocates Grants to Fight Global Pandemic –Apr 29, 2020

Chubb announced two additional grants to fight global pandemic. These grants are a part of its previously announced \$10 million commitment to pandemic relief efforts globally.

Valuation

Chubb shares are down nearly 34.5% in the year-to-date period and 28.9% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Finance sector are down 23% and 25.4% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and sector are down 16.2% and 17.8%, respectively.

The S&P 500 index is down 9% in the year-to-date period and up 4% in the past year.

The stock is currently trading at 0.88x trailing 12-month book value, which compares to 1.02x for the Zacks sub-industry, 2.11x for the Zacks sector and 3.85x 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 \$107 price target reflects 0.92x 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	0.88	1.02	2.11	3.85
	5-Year High	1.43	1.67	2.90	4.55
	5-Year Low	0.77	0.93	1.71	2.84
	5-Year Median	1.26	1.46	2.53	3.65
P/S F12M	Current	1.31	1.4	5.81	3.3
	5-Year High	2.9	11.26	6.7	3.44
	5-Year Low	1.16	1.4	4.99	2.54
	5-Year Median	1.97	1.87	6.05	3.02
P/E F12M	Current	9.95	21.89	15.32	21.15
	5-Year High	20.57	31.55	16.18	21.15
	5-Year Low	8.52	21.07	11.58	15.19
	5-Year Median	12.66	25.42	13.94	17.45

As of 05/08/2020

Industry Analysis Zacks Industry Rank: Top 47% (120 out of 253)



Top Peers

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

Industry Comparison Industry: Insurance - Property And Casualty				Industry Peers		
	CB	X Industry	S&P 500	CNA	PGR	TRV
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	4	-	-	4	2	3
VGM Score	A	-	-	D	B	B
Market Cap	46.02 B	1.16 B	20.19 B	7.99 B	43.47 B	24.61 B
# of Analysts	8	2	14	1	10	8
Dividend Yield	2.94%	1.24%	2.12%	5.02%	0.54%	3.37%
Value Score	B	-	-	A	A	B
Cash/Price	0.11	0.27	0.06	0.27	0.06	0.19
EV/EBITDA	8.35	4.99	11.95	6.43	8.23	3.01
PEG Ratio	1.02	1.61	2.60	NA	1.61	1.79
Price/Book (P/B)	0.88	0.97	2.75	0.77	3.14	0.98
Price/Cash Flow (P/CF)	8.65	8.35	10.78	8.35	10.14	3.18
P/E (F1)	10.24	12.15	19.85	9.35	11.78	10.37
Price/Sales (P/S)	1.28	0.76	2.03	0.77	1.11	0.77
Earnings Yield	9.77%	8.01%	4.83%	10.69%	8.50%	9.65%
Debt/Equity	0.26	0.23	0.75	0.26	0.39	0.26
Cash Flow (\$/share)	11.78	3.12	7.01	3.53	7.33	30.61
Growth Score	B	-	-	F	D	C
Hist. EPS Growth (3-5 yrs)	-0.23%	3.85%	10.87%	10.52%	35.17%	-4.52%
Proj. EPS Growth (F1/F0)	-1.46%	2.77%	-9.87%	-12.26%	-6.16%	-2.24%
Curr. Cash Flow Growth	0.06%	5.61%	5.88%	12.18%	48.16%	3.77%
Hist. Cash Flow Growth (3-5 yrs)	8.77%	7.31%	8.55%	0.21%	24.96%	-1.19%
Current Ratio	0.31	0.43	1.24	0.23	0.39	0.38
Debt/Capital	20.93%	19.06%	44.23%	20.55%	28.14%	20.65%
Net Margin	10.21%	5.73%	10.68%	5.76%	9.18%	7.61%
Return on Equity	8.69%	7.73%	16.36%	8.40%	26.80%	9.61%
Sales/Assets	0.21	0.31	0.55	0.17	0.72	0.29
Proj. Sales Growth (F1/F0)	-1.42%	0.00%	-2.26%	-0.51%	2.07%	0.67%
Momentum Score	A	-	-	F	A	D
Daily Price Chg	2.99%	1.83%	2.40%	3.19%	-0.88%	1.61%
1 Week Price Chg	-2.34%	-1.56%	0.53%	-2.45%	-8.07%	-4.73%
4 Week Price Chg	-16.62%	-5.89%	2.68%	-12.68%	-7.61%	-11.30%
12 Week Price Chg	-38.15%	-25.80%	-19.20%	-41.31%	-11.44%	-28.89%
52 Week Price Chg	-28.53%	-22.35%	-8.44%	-35.32%	1.95%	-31.37%
20 Day Average Volume	3,159,306	126,883	2,398,409	281,489	3,087,319	1,796,523
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	-10.00%	0.00%	0.00%
(F1) EPS Est 4 week change	-8.32%	-8.00%	-6.95%	-10.00%	16.76%	-7.89%
(F1) EPS Est 12 week change	-9.35%	-10.53%	-15.68%	-18.53%	16.24%	-9.48%
(Q1) EPS Est Mthly Chg	-23.21%	-9.84%	-13.12%	-23.71%	27.35%	-16.83%

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	B
Momentum Score	A
VGM Score	A

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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