

Axis Capital

4Q23 results match earlier preannouncement

Reiterate Rating: BUY | PO: 76.00 USD | Price: 59.52 USD

4Q23 operating loss of \$1.25/sh

AXIS's 4Q23 results were generally in-line with a skinny preannouncement on January 23, which included a \$425mn charge for adverse loss reserve development on prior-year policies. The quarterly financial data included segment granularity where 57% of the reserve charge related to the Reinsurance segment despite representing 43% of gross loss reserves at September 30, 2023. The quarter also included a better-than-\$400mn reversal in the mark-to-market loss created by the 2H21-1H23 rise in interest rates.

Deceleration in premium growth

AXIS Insurance segment net premium writing growth was up 9.4% over 4Q22, albeit decelerating from being up 13.8% in 3Q23. The quarter saw over 1,000bps of sequential quarter deceleration in Property, Liability and Accident/Health risks, which was partly offset by substantial growth in Cyber (though timing of premium received may be a driver, noting outsize premium volume in 3Q22 making a difficult comparable a year later). Net written premium in the Reinsurance segment was down 51% as AXIS exits a number of property-skewed markets in the reinsurance space and cedes some of its business to the Monarch Point Re balance sheet.

Forecasting a stabilization of investment income

4Q23 investment income of \$187mn included \$25mn from "other" (equity-correlated) income. We expect this to recur in 1Q24 (where private equity investments report on a one-month lag and 4Q23 was a stronger quarter for market performance). However, more broadly, we expect that AXIS's net investment income may have peaked with short-term yields. We are forecasting \$754mn, \$746mn and \$756mn of net investment income in 2024, 2025 and 2026, respectively.

Price objective to \$76; modest EPS increases modeled

We are increasing our PO to \$76 from \$75, largely due to an increase in the peer P/E multiple (currently 10.7x, up from 10.6x last week) and a nickel more of EPS forecasted for 2025. We value AXIS at a 30% discount to the peer group, which is where it traded until recent years as the inconsistency of its results led it to trade at a greater-than-historical discount. We expect that the fortification of its reserves and the exiting of much of its property-catastrophe exposure is likely to lower earnings volatility. Healthy potential upside to our PO underlies our Buy recommendation.

Estimates (Dec) (US\$)	2022A	2023A	2024E	2025E	2026E
EPS	5.81	5.65	10.05	10.15	10.80
EPS Change (YoY)	13.5%	-2.8%	77.9%	1.0%	6.4%
Consensus EPS (Bloomberg)			9.72	10.39	12.05
DPS	1.73	1.76	1.80	1.84	1.88
Valuation (Dec)					
P/E	10.2x	10.5x	5.9x	5.9x	5.5x
Dividend Yield	2.9%	3.0%	3.0%	3.1%	3.2%

31 January 2024

Equity

Key Changes

(US\$)	Previous	Current
Price Obj.	75.00	76.00
2024E EPS	9.85	10.05
2025E EPS	10.10	10.15
2026E EPS	10.65	10.80

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Stock Data

Price	59.52 USD
Price Objective	76.00 USD
Date Established	31-Jan-2024
Investment Opinion	B-1-7
52-Week Range	51.25 USD - 63.93 USD
Mkt Val (mn) / Shares Out (mn)	5,018 USD / 84.3
Free Float	90.1%
Average Daily Value (mn)	34.40 USD
BofA Ticker / Exchange	AXS / NYS
Bloomberg / Reuters	AXS US / AXS.N
ROE (2024E)	14.4%
Net Dbt to Eqty (Dec-2023A)	NA
ESGMeter™	Medium

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Timestamp: 31 January 2024 06:19PM EST

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Income Statement Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Total Earned Premiums	5,160	5,084	5,233	5,471	5,652
Net Investment Income	419	612	754	746	756
Total Revenue	5,293	5,585	6,020	6,249	6,440
Total Cost of Benefits and Claims	(3,242)	(3,393)	(3,173)	(3,313)	(3,421)
S,G & A (Including Commissions)	(1,734)	(1,714)	(1,753)	(1,829)	(1,887)
Total Operating Expenses	(5,050)	(5,187)	(5,003)	(5,220)	(5,385)
Pre-Tax Operating Earnings	243	398	1,016	1,028	1,054
Income Tax Expense	(22)	(26)	(132)	(156)	(160)
Operating Earnings After Tax	498	486	854	842	864
Net Income (Reported)	551	534	884	873	895
Diluted Shares	86	86	85	83	80
Operating Earnings Per Share	5.81	5.65	10.05	10.15	10.80
Net Income (Reported) Per Share	5.81	5.65	10.05	10.15	10.80

Balance Sheet Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Fixed Income Securities	12,025	12,921	13,440	13,852	14,229
Total Cash and Investments	15,528	16,645	17,314	17,844	18,330
Total Assets	27,596	30,251	31,406	32,294	33,053
Reserves	15,169	16,434	16,681	16,872	17,119
LT Debt	1,496	1,523	1,400	1,400	1,400
Total Liabilities	22,956	24,987	25,362	25,650	25,966
Total Equity	4,640	5,263	6,044	6,644	7,087
Total Equity (Ex FAS 115)	5,400	5,629	6,210	6,644	7,087
Book Value per Share (Reported)	46.95	54.06	63.74	73.25	81.51
Book Value per Share (Ex FAS 115)	55.68	58.25	65.66	73.25	81.51

Ratios (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Expense Ratio	33.6%	33.7%	33.5%	33.4%	33.4%
Loss Ratio	62.8%	66.7%	60.6%	60.6%	60.5%
Combined Ratio	96.4%	100.5%	94.1%	94.0%	93.9%
Avg Assets / Avg Eq (Ex FAS 115) Ratio	5.1x	5.2x	5.2x	5.0x	4.8x

Growth Rates (YoY) (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Total Earned Premium	9.6%	-1.5%	2.9%	4.5%	3.3%
Net Investment Income	-7.8%	46.1%	23.3%	-1.2%	1.4%
Total Revenue	-0.5%	5.5%	7.8%	3.8%	3.1%
Operating Earnings per Share	13.5%	-2.8%	77.9%	1.0%	6.4%
Asset	0.8%	9.6%	3.8%	2.8%	2.4%
Reported Book Value per Share	-15.8%	15.1%	17.9%	14.9%	11.3%

Performance Metrics (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Operating ROE	9.2%	8.6%	14.4%	13.1%	12.6%
Operating ROE (Ex FAS 115)	9.2%	8.6%	14.4%	13.1%	12.6%
Operating Return on Average Assets	1.8%	1.7%	2.8%	2.6%	2.6%
Operating Margin	9.4%	8.7%	14.2%	13.5%	13.4%
Long Term Debt to Cap Ratio (Ex FAS 115)	21.7%	21.3%	18.4%	17.4%	16.5%
Net Income % Operating Income	38.3%	70.3%	100.0%	100.0%	100.0%
Amtz of DAC % Pretax Profit bef Amtz of DAC	0%	0%	0%	0%	0%

Company Sector

Insurance - Non-Life

Company Description

AXIS was one of several companies formed after 9/11 and the fallout of the liability reserve hole created by 1997-2002 underpricing. Over the years, it has evolved into a niche provider of risks in both the primary market (often focused on the non-admitted marketplace) and reinsurance markets. A change of top management in 2012 and the acquisition of Novae in 2017 have been part of long-term strategy shift at Axis, while its risk profile has failed to generate peer-equivalent shareholder return.

Investment Rationale

As peer companies have seen their valuation multiples expand, AXIS has become deeply discounted. It has a top-of-class positioning in its investment portfolio, and its exodus from property reinsurance should lower earnings volatility. In 4Q23, the company completed an in-depth reserve review, reducing the risk of future charges and alleviating a key overhang on the stock. Despite exiting property reinsurance, projected ROEs in the 13-15% range remain healthy.

Stock Data

Average Daily Volume

578,010

Quarterly Earnings Estimates

	2023	2024
Q1	2.33A	2.77E
Q2	2.23A	2.56E
Q3	2.34A	2.10E
Q4	-1.25A	2.62E

Price objective basis & risk

Axis Capital (AXS)

Our price objective of \$76 represents a 30% discount to the P/E multiple of the U.S. P&C insurance peer group (10.7x). This steeper-than-peer discount we believe to be warranted in a period of management and strategy transition. Still, despite the sizable discount, there is still material upside to our price objective. We believe the company's investment portfolio is particularly well-positioned for the inverted yield curve environment. Additionally, we believe fears of a 4Q23 reserve charge have been weighing on the stock, and, now that this charge has been formalized with a 4Q23 pre-announcement, we might expect a re-rating as we get past 2023 numbers.

Upside risks are an acquisition of AXIS at a premium valuation, lower-than-expected catastrophe losses, and favorable prior-year reserve development.

Downside risks are higher-than-expected catastrophe losses, reserve charges, and further elevation in casualty loss cost trends.

Analyst Certification

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US - Insurance Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
BUY				
	Aflac	AFL	AFL US	Joshua Shanker
	Allstate Corp.	ALL	ALL US	Joshua Shanker
	American International Group	AIG	AIG US	Joshua Shanker
	Arch Capital	ACGL	ACGL US	Joshua Shanker
	Assurant	AIZ	AIZ US	Grace Carter, CFA
	Axis Capital	AXS	AXS US	Joshua Shanker
	BRP Group, Inc.	BRP	BRP US	Joshua Shanker
	Cincinnati Financial Corporation	CINF	CINF US	Grace Carter, CFA
	Corebridge Financial	CRBG	CRBG US	Joshua Shanker
	Everest Group Ltd	EG	EG US	Joshua Shanker
	Intact Financial	YIFC	IFC CN	Grace Carter, CFA
	Intact Financial	IFCZF	IFCZF US	Grace Carter, CFA
	MetLife	MET	MET US	Joshua Shanker
	Progressive	PGR	PGR US	Joshua Shanker
	RenaissanceRe	RNR	RNR US	Joshua Shanker
	The Hartford	HIG	HIG US	Joshua Shanker
	Voya	VOYA	VOYA US	Joshua Shanker
	W.R. Berkley	WRB	WRB US	Joshua Shanker
NEUTRAL				
	Aon	AON	AON US	Joshua Shanker
	Brown & Brown	BRO	BRO US	Grace Carter, CFA
	CNA Financial	CNA	CNA US	Joshua Shanker
	Lincoln National	LNC	LNC US	Joshua Shanker
	Marsh McLennan	MMC	MMC US	Joshua Shanker
	Principal Financial Group	PFG	PFG US	Joshua Shanker
	Prudential Financial	PRU	PRU US	Joshua Shanker
	The Hanover	THG	THG US	Grace Carter, CFA
	Trupanion	TRUP	TRUP US	Joshua Shanker
	Unum	UNM	UNM US	Joshua Shanker
UNDERPERFORM				
	Arthur J. Gallagher & Co.	AJG	AJG US	Joshua Shanker



US - Insurance Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
	Chubb Ltd	CB	CB US	Joshua Shanker
	Goosehead Insurance Inc.	GSHD	GSHD US	Joshua Shanker
	Selective	SIGI	SIGI US	Grace Carter, CFA
	Travelers Cos	TRV	TRV US	Joshua Shanker
	Willis Towers Watson	WTW	WTW US	Joshua Shanker

iQmethodSM Measures Definitions**Business Performance**

Return On Capital Employed

Return On Equity

Operating Margin

Earnings Growth

Free Cash Flow

Quality of Earnings

Cash Realization Ratio

Asset Replacement Ratio

Tax Rate

Net Debt-To-Equity Ratio

Interest Cover

Valuation Toolkit

Price / Earnings Ratio

Price / Book Value

Dividend Yield

Free Cash Flow Yield

Enterprise Value / Sales

EV / EBITDA

Numerator

NOPAT = (EBIT + Interest Income) × (1 – Tax Rate) + Goodwill Amortization

Net Income

Operating Profit

Expected 5 Year CAGR From Latest Actual

Cash Flow From Operations – Total Capex

Numerator

Cash Flow From Operations

Capex

Tax Charge

Net Debt = Total Debt – Cash & Equivalents

EBIT

Numerator

Current Share Price

Current Share Price

Annualised Declared Cash Dividend

Cash Flow From Operations – Total Capex

EV = Current Share Price × Current Shares + Minority Equity + Net Debt +

Other LT Liabilities

Enterprise Value

Denominator

Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill

Amortization

Shareholders' Equity

Sales

N/A

N/A

Denominator

Net Income

Depreciation

Pre-Tax Income

Total Equity

Interest Expense

Denominator

Diluted Earnings Per Share (Basis As Specified)

Shareholders' Equity / Current Basic Shares

Current Share Price

Market Cap = Current Share Price × Current Basic Shares

Sales

Basic EBIT + Depreciation + Amortization

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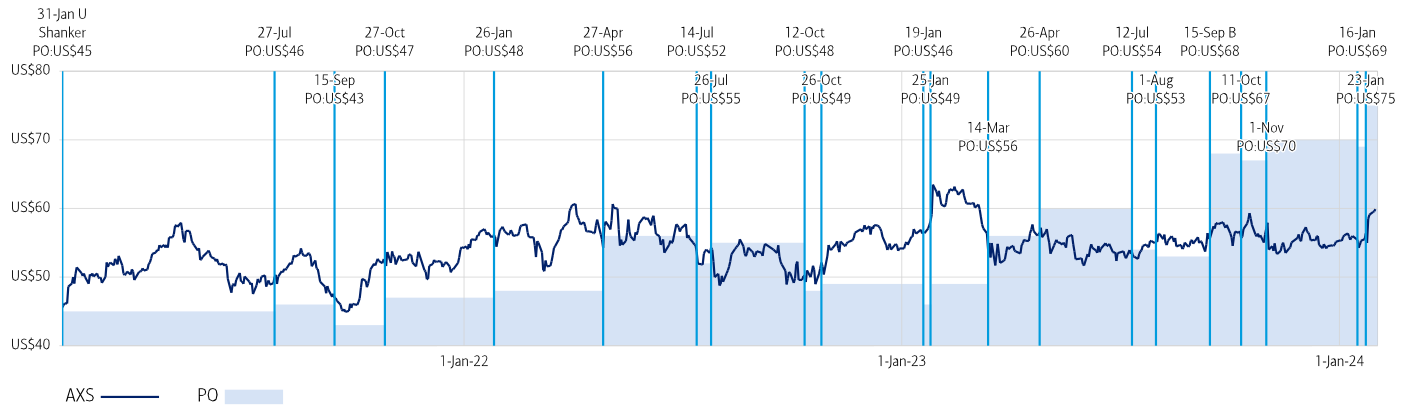
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Axis Capital (AXS) Price Chart



B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

The Investment Opinion System is contained at the end of the report under the heading "Fundamental Equity Opinion Key". Dark grey shading indicates the security is restricted with the opinion suspended. Medium grey shading indicates the security is under review with the opinion withdrawn. Light grey shading indicates the security is not covered. Chart is current as of a date no more than one trading day prior to the date of the report.

Equity Investment Rating Distribution: Financial Services Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	156	53.79%	Buy	94	60.26%
Hold	72	24.83%	Hold	48	66.67%
Sell	62	21.38%	Sell	35	56.45%

Equity Investment Rating Distribution: Global Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	1895	53.62%	Buy	1083	57.15%
Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

^{R1} Issuers that were investment banking clients of BofA Securities or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.

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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster ^{R2}
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

^{R2} Ratings dispersions may vary from time to time where BofA Global Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

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