

## Chubb Ltd

# 1Q23 earnings results essentially in line with expectations

Reiterate Rating: UNDERPERFORM | PO: 193.00 USD | Price: 201.18 USD

## 1Q23 operating EPS of \$4.41

Chubb's 1Q23 result beat our EPS forecast of \$4.05 but were below consensus of \$4.44 by a hair. Variances with our forecast include net investment income of \$1.20bn ahead of our forecast of \$1.15 (a \$0.09/sh boost), net favorable loss reserve development of \$196mn vs. our forecast of \$140mn (+\$0.11/sh), and life underwriting income ahead of our forecast by \$33mn (+\$0.07). Global P&C underwriting income (an 83.4% underlying combined ratio) of \$1.2bn was essentially in line with our forecast, with 20bps of better underwriting income offset by slightly lower-than-forecasted net premiums earned.

## Investment return continues to climb with higher rates

Similar to peers Travelers and W.R. Berkley, which have already reported 1Q23, Chubb grew its investment float (plus cash) by 2% from the beginning of year to \$117.9bn, including a \$1.3bn reduction in the unrealized investment loss associated with the pull to par from the 2H21-2022 surge in interest rates. The portfolio yield in 1Q23 was 4.11%, 13bps higher than our forecast. We lift our investment yield projection by about 10-15bps in 2Q23-2025, triggering an increase in our EPS forecasts of about 5% annually.

## Premium growth rate appears to slow

Global P&C net written premium was up 6.7% or 8.3% on a constant-currency basis. This latter number compares with 8.8% last quarter and 10.7% in the year-ago quarter. However, higher outward reinsurance costs do not seem evident in Chubb's numbers, with the company retaining slightly more premium. Gross premium written in NA Commercial was up just 3.6% over 1Q22, while premium growth in NA Personal accelerated, up 9.9. Regarding Chubb's desire/ability to participate in the currently hot reinsurance markets, its small reinsurance segment's net premium written growth was up just 7.3% in 1Q23.

## Increasing price objective to \$193; reiterate Underperform

In line with our improved investment income outlook and higher EPS forecast, we raise our price objective to \$193 (from \$182), based on the large-cap peer group 2024 P/E multiple of 10.6x (up from 10.5x previously). Our lower-than-consensus EPS forecast generally regards an accelerated decline in net favorable prior-year reserve development (down 17% in TTM 1Q23 vs. the year-ago period) relative to the consensus view. While we do not regard Chubb's loss reserves as deficient, recently modest loss reserve growth may struggle to keep pace with a resumption of COVID-19-delayed litigation ([as discussed in our report, Where are commercial P&C loss ratios headed](#)). Downside risk to our price objective forms the basis of our Underperform rating.

Estimates (Dec) (US\$)	2021A	2022A	2023E	2024E	2025E
EPS	12.56	15.24	17.10	18.20	19.15
GAAP EPS	19.27	12.55	17.25	18.24	19.20
EPS Change (YoY)	71.8%	21.3%	12.2%	6.4%	5.2%
Consensus EPS (Bloomberg)			18.09	19.75	21.97
DPS	3.18	3.29	3.41	3.50	3.58
Valuation (Dec)					
P/E	16.0x	13.2x	11.8x	11.1x	10.5x
GAAP P/E	10.4x	16.0x	11.7x	11.0x	10.5x
Dividend Yield	1.6%	1.6%	1.7%	1.7%	1.8%

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Refer to important disclosures on page 5 to 7. Analyst Certification on page 3. Price Objective Basis/Risk on page 3.

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Timestamp: 25 April 2023 06:48PM EDT

25 April 2023

### Equity

#### Key Changes

(US\$)	Previous	Current
Price Obj.	182.00	193.00
2023E EPS	16.25	17.10
2024E EPS	17.30	18.20
2025E EPS	18.20	19.15

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### Stock Data

Price	201.18 USD
Price Objective	193.00 USD
Date Established	25-Apr-2023
Investment Opinion	B-3-7
52-Week Range	173.78 USD -231.37 USD
Mrkt Val / Shares Out (mn)	83,318 USD / 414.1
Average Daily Value	364.95 USD
BofA Ticker / Exchange	CB / NYS
Bloomberg / Reuters	CB US / CB.N
ROE (2023E)	13.0%
ESGMeter™	High

ESGMeter is not indicative of a company's future stock price performance and is not an investment recommendation or rating. ESGMeter is independent of BofA Global Research's equity investment rating, volatility risk rating, income rating, and price objective for that company. For full details, refer to ["BofA ESGMeter Methodology"](#).

NA: North America

P&C: Property & Casualty

sh: share

TTM: trailing 12 months

vs.: versus

# iQprofile<sup>SM</sup> Chubb Ltd

## Income Statement Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Total Earned Premiums	36,355	40,389	44,266	46,883	49,179
Net Investment Income	3,456	3,742	4,744	5,326	5,730
<b>Total Revenue</b>	<b>40,963</b>	<b>43,166</b>	<b>48,818</b>	<b>52,210</b>	<b>54,909</b>
Total Cost of Benefits and Claims	(22,679)	(24,834)	(27,598)	(29,586)	(31,263)
S,G & A (Including Commissions)	(10,054)	(10,787)	(11,935)	(12,662)	(13,290)
<b>Total Operating Expenses</b>	<b>(31,147)</b>	<b>(36,598)</b>	<b>(40,066)</b>	<b>(43,015)</b>	<b>(45,321)</b>
<b>Pre-Tax Operating Earnings</b>	<b>9,816</b>	<b>6,568</b>	<b>8,752</b>	<b>9,194</b>	<b>9,588</b>
Income Tax Expense	(1,277)	(1,255)	(1,577)	(1,694)	(1,771)
<b>Operating Earnings After Tax</b>	<b>5,569</b>	<b>6,457</b>	<b>7,110</b>	<b>7,480</b>	<b>7,797</b>
<b>Net Income (Reported)</b>	<b>8,539</b>	<b>5,313</b>	<b>7,175</b>	<b>7,500</b>	<b>7,817</b>
Diluted Shares	443	424	416	411	407
Operating Earnings Per Share	12.56	15.24	17.10	18.20	19.15
Net Income (Reported) Per Share	19.27	12.55	17.25	18.24	19.20

## Balance Sheet Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Fixed Income Securities	NA	NA	NA	NA	NA
Total Cash and Investments	123,982	115,563	124,834	134,721	142,857
<b>Total Assets</b>	<b>200,054</b>	<b>199,124</b>	<b>199,695</b>	<b>210,243</b>	<b>219,082</b>
Reserves	72,943	76,323	66,131	65,894	65,657
LT Debt	16,168	14,877	14,375	14,375	14,375
<b>Total Liabilities</b>	<b>140,340</b>	<b>148,584</b>	<b>140,856</b>	<b>142,913</b>	<b>145,041</b>
<b>Total Equity</b>	<b>59,714</b>	<b>50,540</b>	<b>58,844</b>	<b>67,335</b>	<b>74,046</b>
<b>Total Equity (Ex FAS 115)</b>	<b>59,714</b>	<b>50,540</b>	<b>58,844</b>	<b>67,335</b>	<b>74,046</b>
Book Value per Share (Reported)	139.99	121.90	143.76	166.19	184.43
Book Value per Share (Ex FAS 115)	134.70	139.62	150.79	163.42	176.91

## Ratios (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Expense Ratio	30.3%	30.0%	31.0%	31.0%	30.9%
Loss Ratio	64.0%	63.5%	64.6%	65.6%	66.2%
<b>Combined Ratio</b>	<b>94.4%</b>	<b>93.5%</b>	<b>95.6%</b>	<b>96.6%</b>	<b>97.1%</b>
Avg Assets / Avg Eq (Ex FAS 115) Ratio	3.3x	3.6x	3.6x	3.2x	3.0x

## Growth Rates (YoY) (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Total Earned Premium	9.8%	11.1%	9.6%	5.9%	4.9%
Net Investment Income	2.4%	8.3%	26.8%	12.3%	7.6%
Total Revenue	13.8%	5.4%	13.1%	6.9%	5.2%
Operating Earnings per Share	71.8%	21.3%	12.2%	6.4%	5.2%
Asset	4.9%	-0.5%	0.3%	5.3%	4.2%
Reported Book Value per Share	6.1%	-12.9%	17.9%	15.6%	11.0%

## Performance Metrics (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Operating ROE	9.4%	12.2%	13.0%	11.9%	11.0%
Operating ROE (Ex FAS 115)	9.4%	12.2%	13.0%	11.9%	11.0%
Operating Return on Average Assets	2.8%	3.2%	3.6%	3.6%	3.6%
Operating Margin	13.6%	15.0%	14.6%	14.3%	14.2%
Long Term Debt to Cap Ratio (Ex FAS 115)	21.3%	22.7%	19.6%	17.6%	16.3%
Net Income % Operating Income	153.3%	82.3%	100.9%	100.3%	100.3%
Amtz of DAC % Pretax Profit bef Amtz of DAC	0%	0%	0%	0%	0%

## Company Sector

Insurance - Non-Life

## Company Description

Swiss-domiciled Chubb provides diverse insurance/reinsurance to clients globally, focusing on specialty businesses, large accounts, property and liability-related lines. Business mix is dominated by insurance. International exposure (about 33% of premiums come from outside the US) provides long-term growth potential. Chubb has a major presence in the US, Europe, Asia and Bermuda. Chubb also writes accident and health and life insurance.

## Investment Rationale

We believe Chubb's low underwriting leverage and already best-in-class underwriting margins make it a less of a candidate for material margin expansion as COVID19 losses and the headwinds of a potentially shrinking premium base due to recessionary trends abate. The company's international exposure could lead it to have higher legal costs and complicating exposures related to COVID19. In the face of lower interest rates, Chubb may find it more difficult to match historical returns.

## Stock Data

Average Daily Volume 1,814,064

## Quarterly Earnings Estimates

	2022	2023
Q1	3.82A	4.41A
Q2	4.20A	4.29E
Q3	3.17A	4.05E
Q4	4.05A	4.35E

## Price objective basis & risk

### Chubb Ltd (CB)

We arrive at a price objective of \$193 based on 10.6x 2024E P/E, which is in line with large-cap commercial lines peers, reflecting the historical trading range.

Upside risk is posed by a material improvement in underwriting margins. The company has been experiencing meaningful price increases in 2020, but these have not translated into meaningfully improving margins so far. Downside risk is presented by the pressure from lower interest rates causing a decline in earnings power and potentially leading the company to miss our EPS expectations. The volatility associated with catastrophes also creates risk of missing or exceeding our EPS outlook. Likewise, reserve adequacy is a bi-directional risk to our price objective.

## Analyst Certification

I, Joshua Shanker, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

### US - Insurance Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
<b>BUY</b>				
	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
	BRP Group, Inc.	BRP	BRP US	Joshua Shanker
	Corebridge Financial	CRBG	CRBG US	Joshua Shanker
	Everest Re	RE	RE US	Joshua Shanker
	Intact Financial	IFCZF	IFCZF US	Grace Carter, CFA
	MetLife	MET	MET US	Joshua Shanker
	Principal Financial Group	PFG	PFG US	Joshua Shanker
	Progressive	PGR	PGR US	Joshua Shanker
	RenaissanceRe	RNR	RNR US	Joshua Shanker
	The Hanover	THG	THG US	Grace Carter, CFA
	The Hartford	HIG	HIG US	Joshua Shanker
	Trupanion	TRUP	TRUP US	Joshua Shanker
	Voya	VOYA	VOYA US	Joshua Shanker
	W.R. Berkley	WRB	WRB US	Joshua Shanker
<b>NEUTRAL</b>				
	Aon	AON	AON US	Joshua Shanker
	Cincinnati Financial Corporation	CINF	CINF US	Grace Carter, CFA
	Lincoln National	LNC	LNC US	Joshua Shanker
	Prudential Financial	PRU	PRU US	Joshua Shanker
	Selective	SIGI	SIGI US	Grace Carter, CFA
	Unum	UNM	UNM US	Joshua Shanker
<b>UNDERPERFORM</b>				
	Arthur J. Gallagher & Co.	AJG	AJG US	Joshua Shanker
	Axis Capital	AXS	AXS US	Joshua Shanker
	Chubb Ltd	CB	CB US	Joshua Shanker
	CNA Financial	CNA	CNA US	Joshua Shanker
	Goosehead Insurance Inc.	GSHD	GSHD US	Joshua Shanker
	Lemonade, Inc.	LMND	LMND US	Joshua Shanker
	Marsh McLennan	MMC	MMC US	Joshua Shanker



## US - Insurance Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
	Travelers Cos	TRV	TRV US	Joshua Shanker
	Willis Towers Watson	WTW	WTW US	Joshua Shanker

**iQmethod<sup>SM</sup> Measures Definitions****Business Performance**

Return On Capital Employed

Return On Equity

Operating Margin

Earnings Growth

Free Cash Flow

**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

**Denominator**

Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill

Amortization

Shareholders' Equity

Sales

N/A

N/A

**Quality of Earnings**

Cash Realization Ratio

Asset Replacement Ratio

Tax Rate

Net Debt-To-Equity Ratio

Interest Cover

**Numerator**

Cash Flow From Operations

Capex

Tax Charge

Net Debt = Total Debt – Cash &amp; Equivalents

EBIT

**Denominator**

Net Income

Depreciation

Pre-Tax Income

Total Equity

Interest Expense

**Valuation Toolkit**

Price / Earnings Ratio

Price / Book Value

Dividend Yield

Free Cash Flow Yield

Enterprise Value / Sales

**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**

Diluted Earnings Per Share (Basis As Specified)

Shareholders' Equity / Current Basic Shares

Current Share Price

Market Cap = Current Share Price × Current Basic Shares

Sales

EV / EBITDA

Basic EBIT + Depreciation + Amortization

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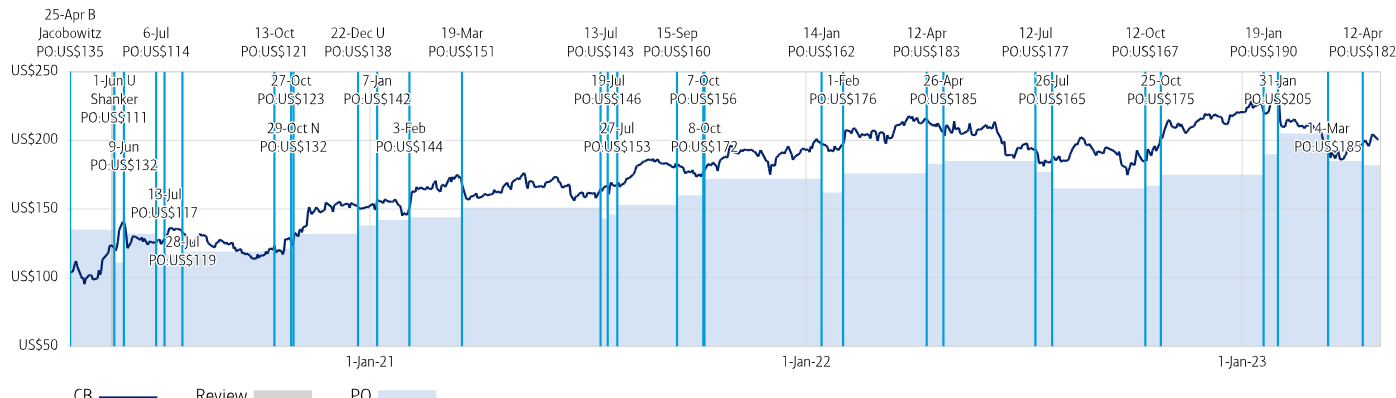
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### Chubb Ltd (CB) Price Chart



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 Mar 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships <sup>R1</sup>	Count	Percent
Buy	152	52.41%	Buy	92	60.53%
Hold	73	25.17%	Hold	44	60.27%
Sell	65	22.41%	Sell	41	63.08%

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

Coverage Universe	Count	Percent	Inv. Banking Relationships <sup>R1</sup>	Count	Percent
Buy	1869	53.01%	Buy	1030	55.11%
Hold	827	23.45%	Hold	476	57.56%
Sell	830	23.54%	Sell	389	46.87%

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Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

<sup>R2</sup> 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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