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J.P. Morgan upgrades Chubb on higher price expectations following Q3 cat events

By David Hood

J.P. Morgan equity analyst Sarah DeWitt upgraded Chubb Ltd. to "overweight" from "neutral" because of its position to increase prices globally following catastrophe events that roiled the property and casualty market in the third quarter.

DeWitt wrote in a research note that her firm expects P&C insurance prices to rise in property insurance and reinsurance lines, while other lines stabilize and could rise slowly over the next few years.

DeWitt's firm projects that U.S. property catastrophe reinsurance prices could increase "at least double-digits" with loss-affected accounts seeing larger price increases, while global property reinsurance prices "could likely rise modestly."

DeWitt wrote that as more investors look to gain exposure to the sector given higher P&C insurance prices after catastrophe losses, her firm maintains that Chubb will be "a major beneficiary" as it is a large P&C insurance "bellwether."

"[Chubb] has one of the best brands, broadest platforms, strongest management teams and is the least volatile as evidenced by only a 3% impact to book value from the [third-quarter] catastrophes, which was the most expensive hurricane season ever."

She wrote that each one-point change in overall P&C insurance prices at Chubb equals 4% of earnings before the cost of higher reinsurance. She estimated that if P&C insurance prices eventually rose 5% overall and reinsurance costs rose 10%, it could add 15% to growth in annual earnings.

DeWitt raised her price target to \$175 from \$155.

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