



**October 2, 2017**

**CURRENT PRICE:** \$3,60  
**RATING:** HOLD  
**PRICE TARGET:** N/A  
**CURRENT YIELD:** 13,3%

**EPS Estimates**

	DEC 16A	DEC 17E
1Q	\$017	\$0.22A
2Q	\$0.14	\$0.19A
3Q	\$0.50	(\$2.12)
4Q	(\$0.39)	(\$1.60)
	<b>\$0.43</b>	<b>(\$3.31)</b>

**Trading Data**

52-WEEK PRICE RANGE: \$6.90-\$3.36  
 SHARES OUTSTANDING: 5.81(M)  
 MARKET CAP: \$20.9(M)  
 AVG. DAILY TRADING VOLUME: 20.7(K)  
 S&P 500: 2,529

**Valuation Data**

BOOK VALUE: \$6.28  
 PRICE TO BOOK: 0.57x  
 DIVIDEND: \$0.48

**Oxbridge Re Holdings Ltd. (NSDQ: OXBR)**

*Lowering Rating due to pending Hurricane Claims*

**Highlights**

- 2Q17 earnings of \$0.19/share vs. \$0.14/share during 2Q16
- Hurricane claim estimates of \$17.5 million-\$25.5 million
- Book value reduction & dividend elimination likely
- Additional capital raise a probability
- Reducing rating to HOLD

**Investment Thesis**

OXBR is a microcap stock offering aggressive/speculative investors above average appreciation potential based on its ability to grow revenues and profits in the future. The company's goal is to grow its revenue stream and carve out a niche in the \$24 billion global property/casualty reinsurance business. If successful, then OXBR could experience large growth in both its earnings and book value/share and potentially increase investor demand for this stock. However, pending hurricane claims changes the company's operating metrics.

**Company Summary**

Oxbridge Reinsurance Limited, writes fully collateralized reinsurance policies mainly for property and casualty insurance companies in the Gulf Coast region of the US. The majority of OXBR's business comes from reinsurance brokers who receive commissions based on gross premiums written. The company's two principal revenue sources are reinsurance premiums and income from its investment portfolio. OXBR is headquartered in the Cayman Islands and plans to expand business relationships with reinsurance brokers and insurance underwriters.

*For Important Disclosure information regarding the Firm's rating system, valuation methods and potential conflicts of interest, please refer to the last two pages of this report.*

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## **BUSINESS DESCRIPTION**

Oxbridge Re Holdings Limited (OXBR) was formed in 2013 and went public in 2014. The company provides reinsurance policies mainly to property/casualty insurers serving the US's Gulf Coast region. OXBR is a Cayman Islands exempted company and through its licensed reinsurance subsidiary, Oxbridge Reinsurance Limited, writes fully collateralized reinsurance policies mainly for property/casualty insurance companies in the Gulf Coast region of the US. The majority of OXBR's business comes from reinsurance brokers who receive commissions based on gross premiums written. The company's two principal revenue sources are reinsurance premiums and a minor portion from its investment portfolio. Plans are to expand business relationships with reinsurance brokers and insurance underwriters. OXBR does not pay US Federal Income taxes since it is headquartered in the Cayman Islands.

## **BUSINESS OVERVIEW**

OXBR's objective is to achieve long term growth in book value/share by writing business management believes will generate underwriting profits relative to the risk taken. The company's primary focus will be on underwriting profitability and secondarily, investment profits. Plans are to write primarily property, property catastrophe, and short-tail specialty and casualty reinsurance and will mainly be in the form of treaty reinsurance contracts. These contracts are written on an excess of loss basis, normally with a per-event cap and normally last 12 months. OXBR's currently provides coverage in the Gulf states with 71% of the policies in Florida and 4% combined in Texas and Louisiana, with 25% placed in global industry loss warranty contracts.

OXBR's plans to manage contract risk with contractual limits on exposure to potential claims. The operating goal is to specialize in underwriting medium frequency, high-severity risks. OXBR believes a profit can be derived from reinsurance contracts by analyzing the risk/reward of various contract opportunities

The two principal revenue sources for OXBR are from reinsurance premiums and income from its investment portfolio. Premiums recorded are net of charge in loss experience refund and contains changes in amounts due to cedent under reinsurance contracts. Investment income is comprised of interest income, dividends, and net realized/gains, or losses, on investment securities. This income will be derived from the company's capital held in both OXBR level and in trust accounts to collateralize reinsurance products.

OXBR takes on underwriting risk of close to fifty percent of its equity at any given time. The reinsurance policy contracts are backed by collateralized trust accounts. These trust accounts are collateralized by either cash or investments to the limit of its exposure in any given contract. OXBR's investment portfolio was valued at approximately \$46.7 million as of 12/31/16. The investment portfolio consists of \$6.1 million in fixed maturity investments (13.1%), \$4.9 million of equity securities (10.5%), \$12.2 million of cash/cash equivalents (26.1%), and \$23.4 million of restricted cash and cash equivalents (50.1%).



During FY16 OXBR generated \$15.1 million of reinsurance premiums. Management's target is to put as collateral on reinsurance contracts up to approximately 50% of shareholders equity, which was \$37.2 million as of 12/31/16. The company may need to raise capital (stocks, debt, etc.) in the future to collateralize additional reinsurance contracts.

OXBR's expenses come from three sources: losses and loss adjustments expenses, acquisition costs, and general corporate administrative costs.

Loss and loss adjustment expenses result from the amount/type of reinsurance contracts written by OXBR. These expenses come from claims reported by ceding insurers and may include an actuarial analysis of the estimated losses, including losses incurred during the period and changes in estimates from prior periods.

Acquisition costs are mainly brokerage fees, ceding commissions, premium taxes and other direct expenses related to the company's underwriting of reinsurance contracts. Deferred acquisition costs are amortized over the related contract period.

General and administrative expenses come from salaries, benefits and related costs to OXBR's employees. Additionally, costs associated with professional fees, rent, and other operating expenses are included in this category. The company currently has two employees: Jay Madhu (President/Chief Executive Officer) and Wrendon Timothy (Chief Financial Officer/Corporate Secretary).

OXBR's insiders, and related family members, own approximately 49.0% of OXBR's shares through common stocks, and warrants, when all warrants are converted to common stock, according to the company's 2Q17 Proxy Statement.



## Recent Earnings

OXBR reported 2Q17 earnings of \$0.19/share vs. \$0.14/share during 2Q16. The improvement was mainly due to losses/loss adjustment expenses decreasing by a greater margin than premiums earned during the just concluded quarter. Net premiums earned fell to \$2.6 million from \$3.3 million because of an increase in premiums assumed which reflected an increase in the size of reinsurance contracts placed. This more than offset a change in unearned premiums reserve and premiums ceded.

The unearned premiums reserve change decreased by a larger margin than premiums assumed resulting from accounting adjustments made during 1Q17 and not reflected in 2Q17. When comparing 2Q17 to 2Q16, unearned premiums reserve charge rose to \$14.2 million from \$10.9 million due to the unwinding of premiums from expiring contracts.

Net investment income rose to \$127,000 from \$109,000 when comparing the two quarters, resulting from higher interest from short-term interest bearing investments and increased dividend income. Net investment gains decreased to \$46,000 from \$77,000.

Total expenses decreased to \$1.54 million during 2Q17 from \$2.66 million during 2Q16. The largest decline came in losses/loss adjustments expenses falling to \$1.06 million from \$2.22 million, following larger claim amounts during 2Q16. This was partly offset by higher policy acquisition costs/underwriting expenses, \$94,000 vs. \$68,000, due to expenses associated with writing more insurance business. Also, general/administrative expense increased to \$390,000 from \$377,000, following the addition of a new employee.

## MATERIAL EVENT-Claims from Hurricanes Harvey & Maria

In its 8/28/17 8-K filing OXBR outlined its financial exposure created by damages from Hurricane Harvey in TX and Hurricane Maria in FL. According to the filing the company estimates its claims exposure to be somewhere between \$17.5 million-\$25.5 million. As a result, OXBR discontinued its share repurchase program set to expire 12/31/17.



## Our Thoughts

We are lowering our rating on OXBR to a HOLD from a BUY due to the large claim exposure facing the company during the next few months. According to the 8-K, filed on 9/28/17, the company estimates claims from Hurricanes Harvey and Maria totaling somewhere between \$17.5 million-\$25.5 million. We believe the large amount of claims facing OXBR will negatively impact the company in a couple of ways. First, it is likely the Board may be forced to eliminate the annual dividend. Second, we anticipate a reduction in OXBR's book value per share (\$6.28/share as of 6/30/17) forcing management to do an additional capitol raise in order to continue its reinsurance underwriting business going forward. This could materialize either as private equity/debt infusion, or issuance of additional publicly traded securities (stock, debt, or warrants). Given the negatives from OXBR's estimated hurricane claim exposure, we are reducing our rating on this stock from a BUY to HOLD, and our 2017 earnings estimate has gone negative, from \$0.72/share to (\$3.31)/share, assuming hurricane claims totaling \$22.5 million.

## Risks

There are no guarantees OXBR will be able to grow future earnings. Declining reinsurance premiums, investment portfolio losses, large policy payouts, and rising operating costs could negatively affect the company's profits. Economic slowdowns, insurance industry downturns, new products from competitors, lack of capital markets access, or changing industry trends/technology, are risks for OXBR's ability to sell its products and generate profits. Negative equity markets, rising interest rates, terrorist attacks, and failure to comply with the Sarbanes Oxley Act could cause a decline in OXBR's share price. The company presently has only 2 employees. The loss of either, or

both, could negatively impact the company's ability to operate. Threatening weather (hurricanes, rain/flooding, wind storms) heading towards areas insured by OXBR could negatively impact its stock and profitability. The company's limited capital structure may require a future capital raise which could dilute existing shareholders equity



stake. Given the relatively small amount of daily trading activity in OXBR's stock, any increase in daily trading volume could significantly accelerate the volatility of its share price movements. Additionally, selling by OXBR's insiders (owning 49.0% of outstanding shares-when all warrants are converted to common stock) could put downward pressure on OXBR's share price.

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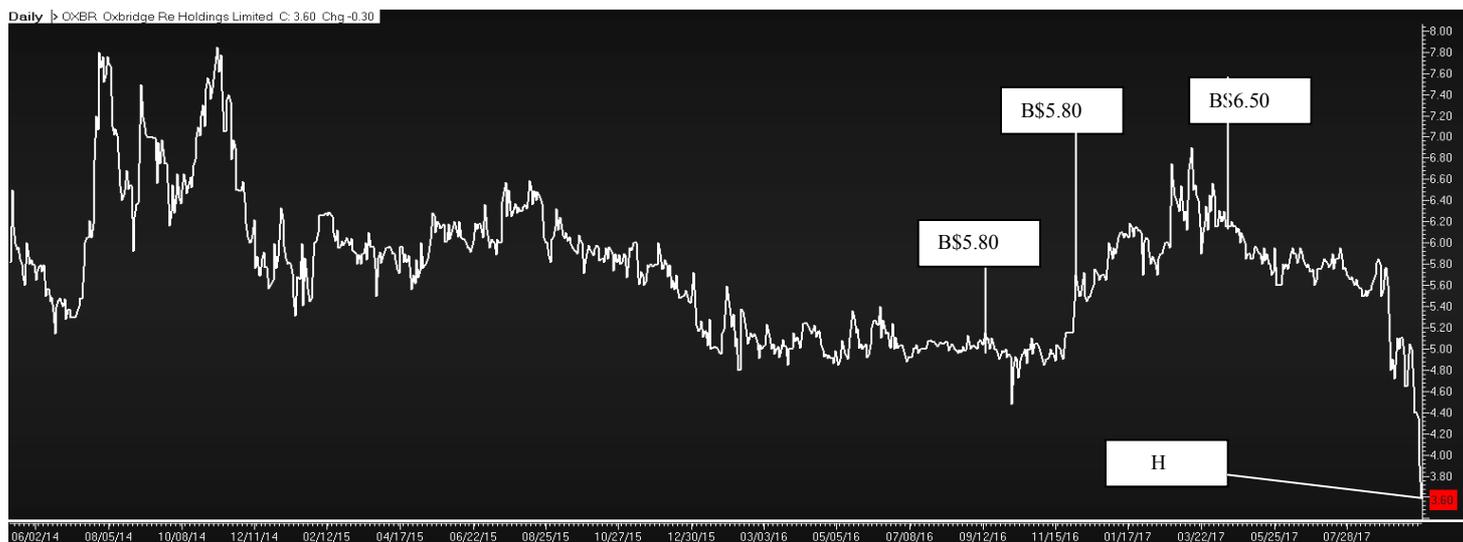


# EQUITY RESEARCH

OXBRIDGE RE HOLDINGS LIMITED AND SUBSIDIARY-unaudited  
(all figures in thousands of US dollars, except per share and share amounts)

	1Q16	2Q16	3Q16	4Q16	2016	1Q17	2Q17	3Q17e	4Q17e	2017e
<b>REVENUES</b>										
Assumed Premiums	\$503	\$14,562	\$0	\$0	\$15,065	\$880	\$17,376	\$0	\$0	\$18,256
Premiums ceded							-147	-441	-441	-1,029
Change in loss experience refund payable	-2,088	-288	-2,089	5,348	883	-748	-512	-12,200	-9,400	-22,860
Change in unearned premiums reserve	2,966	-10,297	4,007	6,065	2,110	1,416	-14,231	1,403	1,752	-9,660
Net premiums earned	1,381	3,347	1,918	11,413	18,058	1,548	2,486	-11,258	-8,129	-15,353
Net realized investment gains/losses	56	72	122	298	554	2	46	41	56	145
Net investment income	94	108	126	123	450	86	127	122	136	471
Other-then-temporary impairment										
Total revenue	1,531	3,532	2,166	11,834	19,062	1,636	2,659	-11,095	-7,937	-14,737
<b>EXPENSES</b>										
Policy acquisition costs/underwriting expenses	61	68	83	75	286	32	94	89	87	302
General & administrative expense	364	377	346	333	1,420	63	390	383	391	1,227
Losses & loss adjustment expense	63	2,215	1,248	13,745	14,775	335	1,059	726	874	2,994
Total expense	488	2,660	819	14,153	16,481	366	1,543	1,198	1,352	3,009
Net Income	1,043	872	2,985	-2,319	2,581	1,270	1,116	-12,293	-9,289	-19,196
Diluted EPS	\$0.17	\$0.14	\$0.50	(\$0.39)	\$0.43	\$0.22	\$0.19	(\$2.12)	(\$1.60)	(\$3.31)
Shares Outstanding	6,060	6,048	5,960	5,916	5,916	5,862	5,862	5,806	5,806	5,806
Dividends/share	\$0.12	\$0.12	\$0.12	\$0.12	\$0.48	\$0.12	\$0.12	\$0.00	\$0.00	\$0.24

## Important Disclosures



9/19/16 Initiate with BUY rating & \$5.80 price target  
 4/19/17 Raise price target to \$6.50/share  
 10/2/17 Lowered rating to HOLD  
 Ratings-  
 BUY: B  
 HOLD: H  
 SELL: S

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- (2) Hold – The stock's total return including dividends is expected to be in line with the industry or market average of +/- 10% over the next twelve months.
- (3) Sell – The Stock's total return including dividends is expected to be below the industry or market average by 10% or more over the next twelve months.

The distribution of investment ratings for all companies in our coverage universe are as follows: (1) 37.5%, (2) 62.5%, (3) 0%

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Capitol Securities Management served as the placement agent for a best efforts offering of OXBR units, consisting of common stock and warrants (to purchase common stock) of OXBR, in March 2014.

The subject company is not, or during the past 12 months, was not, a client of Capitol Securities Management's Investment Banking/Public Finance unit.

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Capitol Securities Management holds investment accounts for key OXBR management/employees, its Board of Directors, and related family members' and holds large amount of OXBR's stock in these accounts.

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Capitol Securities Management holds approximately 43.6% of OXBR's outstanding common stock in its retail investor accounts through common stock and warrants\*

Capitol Securities Management employees hold approximately 2.0% of OXBR's outstanding shares through common stock and warrants\*

OXBR's insiders own approximately 49.0% of OXBR's shares through common stock and warrants\*

\* when converted to common stock



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