



April 11, 2018

CURRENT PRICE: \$2.05
RATING: HOLD
PRICE TARGET: N/A
CURRENT YIELD: N/A

EPS Estimates

	DEC 17A	DEC 18E
1Q	\$0.22	\$0.01
2Q	\$0.19	\$0.10
3Q	(\$3.97)	(\$0.19)
4Q	\$0.00	(\$0.02)
	(\$3.55)	(\$0.10)

Trading Data

52-WEEK PRICE RANGE: **\$6.50-\$1.85**
 SHARES OUTSTANDING: **5.73(M)**
 MARKET CAP: **\$11.8(M)**
 AVG. DAILY TRADING VOLUME: **19.7(K)**
 S&P 500: **2,642**

Valuation Data

BOOK VALUE: N/A
 PRICE TO BOOK: N/A
 DIVIDEND: N/A

Oxbridge Re Holdings Ltd. (NSDQ: OXBR)

Still Recovering from Hurricane Claims

Highlights

- 4Q17 earnings of \$0.00/share vs. (\$0.39)/share during 4Q16
- Hurricane claims reduce shareholder equity
- Potential of lower underwritings in 2018
- Additional capital raise a possibility
- Maintain HOLD Rating

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, recent hurricane claims have hampered the company's current ability to increase the amount of underwritten policies.

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 \$13.9 million as of 12/31/17. The investment portfolio consists of \$4.4 million in fixed maturity investments, \$2.0 million of equity securities (10.5%), \$7.8 million of cash/cash equivalents, and \$3.1 million of restricted cash and cash equivalents.



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 43.3% of OXBR's shares through common stocks, and warrants, when all warrants are converted to common stock.



EQUITY RESEARCH

Recent Earnings

OXBR reported 4Q17 earnings of \$0.00/share vs. (\$0.39)/share during 4Q16, or \$24,000 vs. \$2.3 million, when comparing the two quarters. The improved results were due to the absence of net underwriting losses experienced during 4Q16 from Hurricane Matthew. Total revenues decreased to \$216,000 from \$11.8 million as OXBR's ability to underwrite new policies was hampered by claims from the 2017 hurricane season. Net premiums earned decreased to \$227,000 from \$11.4 million and net realized investment gains and net investment income both decreased to (\$82,000) from \$298,000, and to \$71,000 from \$123,000.

Total expenses decreased to \$240,000 from \$14.2 million as results of 4Q16 reflect claims from Hurricane Matthew. Losses/loss adjustment expenses fell to \$0 from \$13.8 million, policy acquisition costs/underwriting expenses declined to \$9,000 from \$75,000, and general/administrative expenses declined to \$231,000 from \$333,000.

During 4Q17 OXBR's loss ratio decreased to 0.0% from 120.4% during 4Q16. The improvement was due to an absence of losses or loss adjustments during 4Q17 compared to those experienced during 4Q16 from Hurricane Matthew. The acquisition cost ratio rose to 4.0% from 0.7% from a greater decrease in net premiums earned rather than policy acquisition costs during 4Q17 resulting from an acceleration of premium recognition. 4Q17's expense ratio increased to 105.7% from 3.6% because of a significant decrease in net premiums earned in the just completed quarter. The combined ratio was 105.7% compared to 3.6%, reflecting unprofitability in underwriting during 4Q17.

OXBR FY17 earnings decreased to (\$3.55)/share vs. \$0.43/share during FY16 equating to a loss of \$20.6 million compared to \$2.6 million. When comparing the two years, revenues rose to \$23.9 million from \$19.1 million, and were more than offset by a rise in total expenses to \$44.4 million from \$16.5 million. The majority of this increase came from losses/loss adjustment expenses rising to \$42.4 million from \$14.8 million due to higher claims from hurricane damage.

Our Thoughts

OXBR reported 4Q17 earnings of \$0.00/share vs. (\$0.39)/share during 4Q16, or \$24,000 vs. \$2.3 million, when comparing the two quarters. The improved results were due to the absence of net underwriting losses experienced during 4Q16 from Hurricane Matthew. OXBR FY17 earnings decreased to (\$3.55)/share vs. \$0.43/share during FY16 equating to a loss of \$20.6 million compared to \$2.6 million. When comparing the two years, revenues rose to \$23.9 million from \$19.1 million, and were more than offset by a rise in total expenses to \$44.4 million from \$16.5 million. The majority of this increase came from losses/loss adjustment expenses rising to \$42.4 million from \$14.8 million due to higher claims from 2017 hurricane damage. In response OXBR has cut operating expenses and halted its common stock dividend and share repurchase program.

Going forward, OXBR appears to be in a slow recovery mode after the 2017 hurricane season forced the company to pay out large claims. These large payouts caused shareholder equity to fall from around \$35 million to \$13.9 million as of 12/31/17. This poses a challenge for OXBR given its policy is to use 50% of shareholder equity to



underwrite policies. While the company underwrote \$17 million-\$18 million of insurance policies during 2017, current shareholder equity of \$13.9 million would, theoretically, allow only \$7 million to be underwritten in 2018.

Thus, the challenge for management is to raise additional capital in order to grow revenues. This could be done through an equity/debt offering, a combination of both, or raising private capital. During the 4Q17 earnings conference call, OXBR said they are examining this issue and stated all options would be explored, and that capital preservation is a main concern. Our view is OXBR will need to preserve capital and also increase it, in order to write more policies and potentially generate future profits. Until this happens we see little which could propel the stock to higher levels. We rate these shares a HOLD awaiting management's decision on increasing its capital.

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 46.0% 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)

	1Q17	2Q17	3Q17	4Q17	2017	1Q18e	2Q18e	3Q18e	4Q18e	2018e
REVENUES										
Assumed Premiums	\$880	\$17,376	\$0	\$7	\$18,263	\$565	6,425	\$0	\$0	\$6,990
Premiums ceded		-147	-733	0	-880			-259		-259
Change in loss experience refund payable	-748	-512	2,730	-135	1,335	-623	-553	-675	-145	-1,996
Change in unearned premiums reserve	1,416	-14,231	17,309	355	4,849	810	-4,188	1,588	426	-1,364
Net premiums earned	1,548	2,486	19,306	277	23,567	752	1,684	654	281	3,371
Net realized investment gains/losses	2	46	-104	-82	-138	7	58	22	36	123
Net investment income	86	127	128	71	412	81	97	74	75	327
Other-then-temporary impairment										
Total revenue	1,636	2,659	19,330	216	23,841	840	1,839	750	392	3,821
EXPENSES										
Policy acquisition costs/underwriting expenses	32	94	514	9	681	78	86	257	15	436
General & administrative expense	63	390	370	231	1,325	396	394	393	289	1,472
Losses & loss adjustment expense	335	1,059	41,400		42,427	298	788	1,187	200	2,473
Total expense	366	1,543	42,284	240	44,433	772	1,268	1,837	504	4,381
Net Income	1,270	1,116	-22,954	-24	-20,592	68	571	-1,087	-112	-560
Diluted EPS	\$0.22	\$0.19	(\$3.97)	\$0.00	(\$3.55)	\$0.01	\$0.10	(\$0.19)	(\$0.02)	(\$0.10)
Shares Outstanding	5,862	5,862	5,734	5,734	5,734	5,734	5,734	5,734	5,734	5,734
Dividends/share	\$0.12	\$0.12	\$0.12	\$0.00	\$0.36	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00



EQUITY RESEARCH

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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- (1) Buy – The stock's total return including dividends is expected to exceed the industry or market average by at least 10% over the next twelve months.
- (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.

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Capitol Securities Management holds investment accounts for key OXBR management/employees, it's 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 53.8% of OXBR's outstanding common stock in its retail investor accounts through common stock and warrants*

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OXBR's insiders own approximately 43.3% of OXBR's shares through common stock and warrants*

* when converted to common stock



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