RLI Corporation (RLI)

Updated April 23rd, 2019 by Jonathan Weber

Key Metrics

Current Price:	$79	**5 Year CAGR Estimate:**	-11.0%	**Volatility Percentile:**	32.1%
Fair Value Price:	$39	**5 Year Growth Estimate:**	1.2%	**Momentum Percentile:**	82.8%
% Fair Value:	203%	**5 Year Valuation Multiple Estimate:**	-13.3%	**Growth Percentile:**	3.9%
Dividend Yield:	1.1%	**5 Year Price Target**	$41	**Valuation Percentile:**	1.3%
Dividend Risk Score:	A	**Retirement Suitability Score:**	C	**Total Return Percentile:**	0.1%

Overview & Current Events

RLI Corp. is an insurance company that operates the following business units: Casualty (healthcare & transportation insurance), Property (fire, earthquake, difference in conditions, marine, etc.) and Surety (contract surety coverage, licenses, and bonds). RLI was founded in 1965 and is currently valued at $3.5 billion.

RLI Corporation reported its first quarter earnings results on April 17. The company reported revenues of $264 million for the first quarter, which represents an increase of a massive 42% compared to the revenues that RLI Corporation generated during the previous year's quarter. Gross premiums written rose by 6% year over year, while investment income rose by an even better 16% compared to the prior year's quarter. RLI Corporation's revenues were positively impacted by $33 million in unrealized gains, which were the result of the equity market recovery during Q1, following Q4's steep decline. This is somewhat of a one-time item, though, as equity markets will not rise by as much as during Q1 during most quarters. Investors should thus not assume that RLI Corporation's revenues will continue to grow at the massive pace from the first quarter. RLI Corporation's underlying performance during Q1, regarding gross premiums written and net investment income bodes well for its results during fiscal 2019, though.

RLI Corporation earned $0.71 per share on an adjusted basis, which was 18% more than the earnings-per-share that RLI Corporation generated during the first quarter of the previous year. This makes it likely that 2019's earnings-per-share will come in substantially higher than RLI Corporation's earnings-per-share during fiscal 2018.

Growth on a Per-Share Basis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
EPS	$2.35	$2.66	$2.80	$2.02	$2.57	$2.62	$2.53	$2.08	$2.30	$2.05	***$2.29***	***$2.43***
DPS	$0.54	$0.57	$0.60	$0.63	$0.67	$0.71	$0.75	$0.79	$0.83	$0.87	***$0.91***	***$1.10***
Shares	42.5	41.9	42.3	42.5	43.0	43.1	43.5	44.0	44.2	44.5	***44.8***	***46.0***

RLI Corp. has not been able to grow its profits consistently over the last decade. Profitability remained high through the last financial crisis, which is a positive, but since then, earnings have gone up and down without any clear direction. This is, in large part, because low interest rates have reduced the income RLI can generate with its insurance float.

With rising interest rates the return on RLI's assets will most likely increase over the coming years, which should be a positive for the company's profitability going forward. Tax legislation changes are a tailwind for RLI Corporation as well, as this has increased the company's net earnings relative to the operating profits that the company generates. The impact of both of these items, higher investment earnings and lower taxes, was highly visible during fiscal 2018, and tailwinds should persist over the coming years.

RLI has increased its dividend by 6% annually through the last decade, which was primarily possible due to a steady increase in the company's dividend payout ratio. Since the payout ratio is still quite low, RLI should be able to keep its dividends growing going forward, even with only modest expected earnings-per-share growth ahead.

RLI has, in addition to its regular dividends, made many special dividend payments over the last couple of years. The last one of these, in the amount of $1.00, was announced in November 2018. RLI made special dividend payments of $1.75 in 2017 and 2016, thus special dividend payments can be a bit erratic and do not necessarily grow over time.

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Valuation Analysis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	Now	2024
Avg. P/E	10.8	10.4	11.0	16.9	15.6	17.2	21.1	31.1	34.3	33.7	***34.5***	***16.9***
Avg. Yld.	2.1%	2.1%	1.9%	1.8%	1.7%	1.6%	1.4%	1.2%	1.4%	1.3%	***1.1%***	***2.7%***

RLI Corporation's price to earnings multiple has been moving in a very wide range over the last decade. Shares were valued at a low-double-digit price to earnings multiple shortly after the financial crisis, but the company's valuation exploded upwards over the last couple of years. Shares trade at a massive premium relative to how shares were valued in the past, which is why we see considerable downside risk for RLI Corporation's share price.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
Payout	23.0%	21.4%	21.4%	31.2%	26.1%	27.1%	29.6%	38.0%	49.7%	42.4%	***39.7%***	***45.3%***

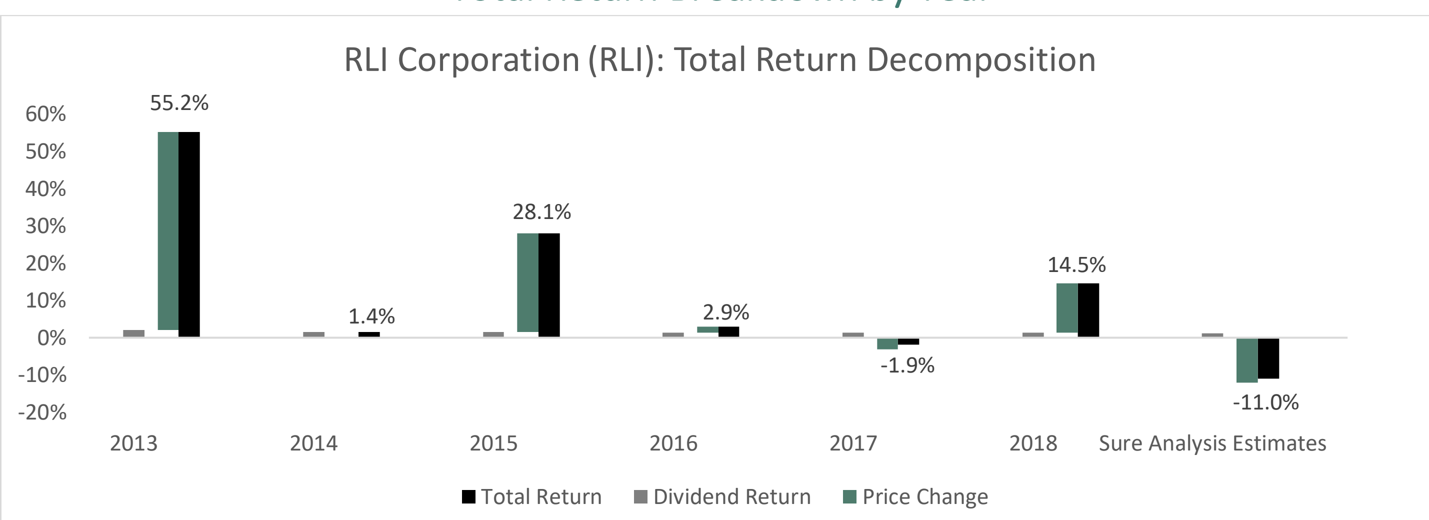
RLI Corporation has raised its regular dividend very steadily over the last couple of years, which was possible due to increases in the company's payout ratio. RLI Corporation still pays out less than half of its profits in the form of regular dividends, which makes the payout look sufficiently safe for the foreseeable future.

Many financial corporations, including some insurers, experienced significant difficulty during the last recession. RLI remained profitable though, and its earnings-per-share actually increased during the 2008 to 2010 time frame. We believe that RLI Corporation will be relatively stable during future recessions as well. Going forward, rising interest rates will be a tailwind for RLI as well as for the rest of the insurance industry, as the company's assets can be invested at higher rates, which will allow for higher investment income in the coming years.

Final Thoughts & Recommendation

RLI Corporation is a smaller insurance company which produced solid underlying results during Q1, with written premiums and investment income rising substantially. Earnings will likely continue to grow during the next couple of years, even though RLI Corporation does not have a strong track record when it comes to generating earnings-per-share growth. We believe that shares are heavily overvalued today and because of this, RLI Corporation earns a sell recommendation from Sure Dividend at current prices.

Total Return Breakdown by Year



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Disclosure: This analyst has no position in the security discussed in this research report, and no plans to initiate one in the next 72 hours.

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Income Statement Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Revenue	547	583	621	663	708	777	796	818	801	820
SG&A Exp.	48	47	8	8	9	10	10	10	11	9
D&A Exp.	3	3	3	3	4	5	5	6	7	7
Net Profit	94	127	127	103	126	135	138	115	105	64
Net Margin	17.2%	21.8%	20.4%	15.6%	17.8%	17.4%	17.3%	14.1%	13.1%	7.8%
Free Cash Flow	127	98	113	21	117	116	143	158	188	211
Income Tax	39	51	57	39	49	54	59	42	-20	3

Balance Sheet Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Total Assets	2539	2515	2655	2645	2740	2776	2735	2778	2947	3105
Cash & Equivalents	0	0	81	44	39	31	11	18	24	30
Accounts Receivable	84	107	478	499	507	490	442	415	436	518
Goodwill & Int. Ass.	26	26	60	76	75	73	71	64	59	55
Total Liabilities	1706	1723	1862	1848	1911	1930	1912	1954	2094	2298
Accounts Payable	22	24	51	44	47	38	38	18	22	23
Long-Term Debt	100	100	100	100	150	150	149	149	149	149
Shareholder's Equity	832	791	793	796	829	845	823	824	854	807
D/E Ratio	0.12	0.13	0.13	0.13	0.18	0.18	0.18	0.18	0.17	0.18

Profitability & Per Share Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Return on Assets	3.8%	5.0%	4.9%	3.9%	4.7%	4.9%	5.0%	4.2%	3.7%	2.1%
Return on Equity	12.2%	15.7%	16.0%	13.0%	15.5%	16.2%	16.5%	14.0%	12.5%	7.7%
ROIC	10.8%	14.0%	14.2%	11.6%	13.5%	13.7%	14.0%	11.8%	10.6%	6.6%
Shares Out.	42.5	41.9	42.3	42.5	43.0	43.1	43.5	44.0	44.2	44.5
Revenue/Share	12.58	13.73	14.49	15.35	16.26	17.73	18.05	18.41	18.00	18.30
FCF/Share	2.92	2.31	2.63	0.49	2.70	2.65	3.23	3.56	4.23	4.71

Note: All figures in millions of U.S. Dollars unless per share or indicated otherwise.