



Old Republic International Corp. (ORI)

Updated October 28th, 2019 by Josh Arnold

Key Metrics

Current Price:	\$23	5 Year CAGR Estimate:	10.8%	Volatility Percentile:	10.2%
Fair Value Price:	\$24	5 Year Growth Estimate:	7.0%	Momentum Percentile:	47.2%
% Fair Value:	95%	5 Year Valuation Multiple Estimate:	1.0%	Growth Percentile:	71.4%
Dividend Yield:	3.5%	5 Year Price Target	\$33	Valuation Percentile:	75.4%
Dividend Risk Score:	A	Retirement Suitability Score:	A	Total Return Percentile:	84.0%

Overview & Current Events

Old Republic was founded back in 1907, and the past 112 years have not always been easy. However, the company has persevered and today, it markets, underwrites and provides risk management services for a variety of general and title insurances. It generates nearly \$7 billion in annual revenue and its market capitalization is also close to \$7 billion.

Old Republic reported Q3 earnings on 10/24/19 and results were largely as expected as the company continues to perform well over the long-term.

Revenue was up nearly 4% to \$1.7 billion as premiums earned and net investment income both rose nicely. Net investment income was up 3.6% to \$113 million in Q3, while premiums rose almost 4% on a 3.4% gain in general insurance premiums, as well as a 5.2% gain from the title insurance business. Fee income declined slightly, but its small size meant that the gains elsewhere were more than enough to offset it.

Expenses were largely flat as a percentage of revenue with the company's expense ratio coming in at 51.9%, even with last year's comparable period. Old Republic's claim ratio, however, ticked up to 42.5% from 41.2% year-over-year, driving the composite ratio up from 93.1% to 94.4%. Still, Old Republic's profitability is well intact given its mid-90% composite ratio, so we don't necessarily see one quarter's uptick as a problem just yet. Investors would do well to remember composite ratios tend to be quite volatile for any insurer.

Earnings-per-share excluding investment gains and losses, which is a true measure of performance, came in at 51 cents against 56 cents in the year-ago period. Still, we are reiterating our estimate of \$1.90 for this year as Old Republic remains on track with its revenue growth.

Growth on a Per-Share Basis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
EPS	-\$0.67	-\$0.16	-\$0.86	-\$0.39	\$1.25	\$0.84	\$1.28	\$1.47	\$1.11	\$1.86	\$1.90	\$2.66
DPS	\$0.68	\$0.69	\$0.70	\$0.71	\$0.72	\$0.73	\$0.74	\$0.75	\$0.76	\$0.78	\$0.80	\$0.96
Shares¹	241	259	259	259	260	261	262	263	269	303	310	350

As one would expect, Old Republic's earnings-per-share have been very volatile during the past decade. Insurers have notoriously unpredictable earnings and Old Republic is certainly no exception, having seen its earnings plummet and skyrocket multiple times in this period. However, it seems to have turned a corner when it comes to growth in earnings and as a result, we are forecasting 7% annual earnings-per-share growth going forward.

This rate of growth will be possible as the company looks to continue its low to mid-single-digit growth in premiums, strong investment income as well as lower losses, with recent results supporting this. Keep in mind, however, that gains likely will not be linear as the insurance business is highly cyclical. Still, Old Republic looks poised for significant growth ahead, particularly if equity markets remain strong.

¹ Share count in millions

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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The dividend will likely continue to grow at a relatively slow pace as dividend increases in the past decade have been very small. It did pay a \$1 special dividend early in 2018, but that is unlikely to become a normal practice. The stock's yield is still very strong even with its sluggish payout growth, so income investors will likely find it attractive.

Valuation Analysis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	Now	2024
Avg. P/E	---	---	---	---	11.2	18.6	12.5	12.6	18.0	11.4	11.9	12.5
Avg. Yld.	6.4%	5.4%	6.3%	7.3%	5.1%	4.7%	4.6%	4.1%	3.8%	3.7%	3.5%	2.9%

Old Republic's price-to-earnings multiple has been volatile in recent years, but that has mostly been due to changes in earnings and not valuation resets from investors. Our estimate of fair value for Old Republic is 12.5 times earnings, which is slightly higher than the current 11.9, and lower than its average of 14. We are therefore forecasting a modest 1% tailwind to annual total returns from the valuation over the coming years.

In addition, we see the yield falling as improving earnings growth could send the stock price higher without the benefit of similar growth in the dividend. That combination would produce a much lower yield in the coming years from today's level of 3.5%, as we see it falling to 2.9% over time. Improving earnings could spur management to boost the increases in the dividend, but that has not happened yet, as they instead opted for the special dividend in January.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
Payout	---	---	---	---	58%	87%	59%	51%	68%	42%	42%	36%

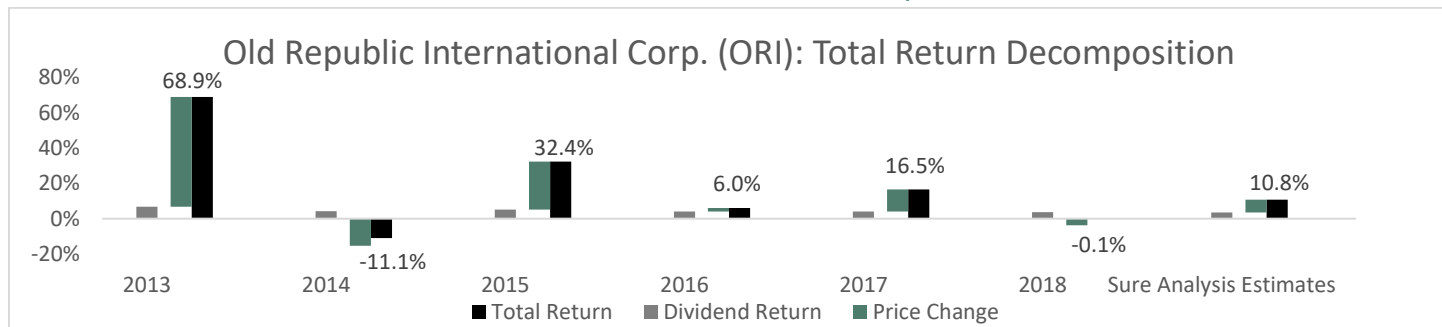
The payout ratio has fallen significantly in recent years, given slow payout growth coupled with strong earnings; that trend should continue. Overall, Old Republic is in significantly better shape than it was a few years ago.

Old Republic operates in a tremendously competitive field, making advantages hard to come by. However, it sets itself apart with its strong premiums against claims, the product of prudent underwriting. Investors would do well to remember that Old Republic, and indeed the insurance industry as a whole, will likely suffer during the next downturn.

Final Thoughts & Recommendation

Overall, Old Republic looks compelling if one can stomach the potential risk of owning an insurer. The stock is now essentially fairly valued in our view and offers robust forecast total annual returns of 10.8% in the coming years, consisting of the current 3.5% yield, 1% tailwind from the rising valuation and 7% earnings-per-share growth. That makes the stock attractive for income investors and those seeking growth. The only caveat is that owning any insurer is an exercise in patience as Old Republic's growth will likely be far from constant. However, if one can move past that, it looks attractive and we continue to rate it a buy based upon the high current yield and growth opportunities.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Revenue	3804	4103	4645	4970	5443	5531	5766	5900	6263	6022
Net Profit	-99	30	-141	-69	448	410	422	467	561	371
Net Margin	-2.6%	0.7%	-3.0%	-1.4%	8.2%	7.4%	7.3%	7.9%	8.9%	6.2%
Free Cash Flow	533	-282	-95	532	687	-181	688	637	453	761
Income Tax	-174	-3	-96	-60	225	200	210	219	165	68

Balance Sheet Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Total Assets	14190	15883	16050	16227	16534	16988	17102	18592	19404	19327
Cash & Equivalents	77	127	93	101	153	137	160	146	126	100
Acc. Receivable	789	1023	4283	4372	4406	4710	4494	4622	4842	4984
Total Liabilities	10299	11761	12278	12631	12759	13064	13221	14131	14670	14181
Long-Term Debt	347	475	913	573	569	965	953	1529	1449	981
Total Equity	3891	4121	3773	3596	3775	3924	3881	4461	4733	5146
D/E Ratio	0.09	0.12	0.24	0.16	0.15	0.25	0.25	0.34	0.31	0.19

Profitability & Per Share Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Return on Assets	-0.7%	0.2%	-0.9%	-0.4%	2.7%	2.4%	2.5%	2.6%	3.0%	1.9%
Return on Equity	-2.6%	0.8%	-3.6%	-1.9%	12.2%	10.6%	10.8%	11.2%	12.2%	7.5%
ROIC	-2.4%	0.7%	-3.0%	-1.5%	10.5%	8.9%	8.7%	8.6%	9.2%	6.0%
Shares Out.	241	259	259	259	260	261	262	263	269	303
Revenue/Share	16.14	17.00	18.21	19.43	18.53	18.74	19.47	19.91	20.92	20.00
FCF/Share	2.26	-1.17	-0.37	2.08	2.34	-0.61	2.32	2.15	1.51	2.53

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

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