Old Republic International Corp. (ORI)

Updated January 26th, 2020 by Josh Arnold

Key Metrics

Current Price:	$23	**5 Year CAGR Estimate:**	8.1%	**Market Cap:**	$7B
Fair Value Price:	$24	**5 Year Growth Estimate:**	4.0%	**Ex-Dividend Date:**	03/04/20[1]
% Fair Value:	95%	**5 Year Valuation Multiple Estimate:**	1.0%	**Dividend Payment Date:**	03/17/20[2]
Dividend Yield:	3.5%	**5 Year Price Target**	$29	**Years Of Dividend Growth:**	38
Dividend Risk Score:	A	**Retirement Suitability Score:**	A	**Last Dividend Increase:**	2.6%

Overview & Current Events

Old Republic was founded back in 1907, and the past 113 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 about $6.5 billion in annual revenue and its market capitalization is $7 billion. Old Republic also has an outstanding dividend increase streak of 38 years.

Old Republic reported Q4 and full-year earnings on January 23rd and results beat expectations on the top and bottom lines. Earnings-per-share came to $0.47 excluding investment gains and losses in Q4, up from $0.45 in the year-ago period.

Net premiums earned rose 11% year-over-year to $1.61 billion. General Insurance revenue rose 5.4% year-over-year to $881 million, Title Insurance continued its very strong run, adding 21% year-over-year to $717 million, and other income was up 16% to $35 million. Total investment gains were very strong in Q4, adding $167 million against a loss of -$308 million in last year's Q4.

General insurance composite ratio was 98.8% against 98.5% in the same period last year. The segment's claim ratio fell to 73% from 75% in the year-ago period, while the expense ratio increased from 23.5% to 25.8%.

Title insurance composite ratio was 90.6% compared to 91.2% in last year's Q4, while the claim ratio was 2.0% against 0.6%. Expense ratio for the segment improved from 90.6% to 88.6% year-over-year.

Book value per share was up 16% as of the end of Q4, rising to $19.98. Our initial estimate for this year is for $1.90 in earnings-per-share as the company is running off its RFIG business, and as expenses continue to rise.

Growth on a Per-Share Basis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
EPS	-$0.16	-$0.86	-$0.39	$1.25	$0.84	$1.28	$1.47	$1.11	$1.86	$1.84	***$1.90***	***$2.31***
DPS	$0.69	$0.70	$0.71	$0.72	$0.73	$0.74	$0.75	$0.76	$0.78	$0.80	***$0.80***	***$1.00***
Shares[3]	259	259	259	260	261	262	263	269	303	303	***303***	***303***

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. To this end, we see Old Republic adding 4% annually to earnings-per-share, down from our previous estimate of 7%.

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, and that expenses have been rising in recent periods. Still, Old Republic looks poised for growth ahead, particularly if equity markets remain strong.

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[1] Estimated date
[2] Estimated date
[3] Share count in millions

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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, and again in late 2019. 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	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Now	2024
Avg. P/E	---	---	---	11.2	18.6	12.5	12.6	18.0	11.4	12.0	***11.9***	***12.5***
Avg. Yld.	5.4%	6.3%	7.3%	5.1%	4.7%	4.6%	4.1%	3.8%	3.7%	3.6%	***3.5%***	***3.5%***

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.

We see the yield staying about where it is at 3.5% as growth in the dividend could be roughly matched by growth in the share price. The wildcard is the recent special dividends the company paid in lieu of larger quarterly dividend increases, but we think Old Republic will continue to be a strong income stock for years to come.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
Payout	---	---	---	58%	87%	59%	51%	68%	42%	43%	***42%***	***43%***

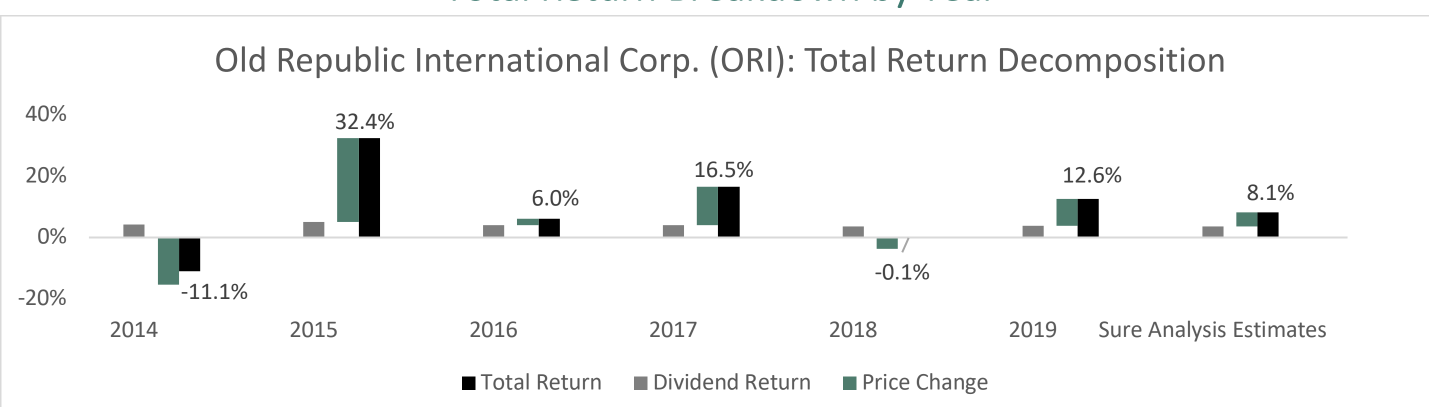
The payout ratio has fallen significantly in recent years. Given slow payout growth coupled with strong earnings that trend should continue. Overall, Old Republic is in significantly better shape than it was a few years ago.

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 moderately compelling if one can stomach the potential risk of owning an insurer. The stock is now essentially fairly valued in our view and offers forecasted total annual returns of 8.1% in the coming years, consisting of the current 3.5% yield, 4% earnings-per-share growth and a small tailwind from the rising valuation. The only caveat is that owning any insurer is an exercise in patience as Old Republic's growth will likely be far from constant. We have moved our rating from buy to hold on lowered growth expectations.

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	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Revenue	4103	4645	4970	5443	5531	5766	5900	6263	6022	7214
Net Profit	30	-141	-69	448	410	422	467	561	371	1056
Net Margin	0.7%	-3.0%	-1.4%	8.2%	7.4%	7.3%	7.9%	8.9%	6.2%	14.6%
Free Cash Flow	-282	-95	532	687	-181	688	637	453	761	
Income Tax	-3	-96	-60	225	200	210	219	165	68	266

Balance Sheet Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Total Assets	15883	16050	16227	16534	16988	17102	18592	19404	19327	21076
Cash & Equivalents	127	93	101	153	137	160	146	126	100	10382
Acc. Receivable	1023	4283	4372	4406	4710	4494	4622	4842	4984	5291
Total Liabilities	11761	12278	12631	12759	13064	13221	14131	14670	14181	15076
Long-Term Debt	475	913	573	569	965	953	1529	1449	981	974
Total Equity	4121	3773	3596	3775	3924	3881	4461	4733	5146	6000
D/E Ratio	0.12	0.24	0.16	0.15	0.25	0.25	0.34	0.31	0.19	0.16

Profitability & Per Share Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Return on Assets	0.2%	-0.9%	-0.4%	2.7%	2.4%	2.5%	2.6%	3.0%	1.9%	5.2%
Return on Equity	0.8%	-3.6%	-1.9%	12.2%	10.6%	10.8%	11.2%	12.2%	7.5%	19.0%
ROIC	0.7%	-3.0%	-1.5%	10.5%	8.9%	8.7%	8.6%	9.2%	6.0%	16.1%
Shares Out.	259	259	259	260	261	262	263	269	303	303
Revenue/Share	17.00	18.21	19.43	18.53	18.74	19.47	19.91	20.92	20.00	23.97
FCF/Share	-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.