Old Republic International Corp. (ORI)

Updated November 3rd, 2020 by Josh Arnold

Key Metrics

Current Price:	$17	**5 Year CAGR Estimate:**	15.0%	**Market Cap:**	$5.1 B
Fair Value Price:	$24	**5 Year Growth Estimate:**	4.0%	**Ex-Dividend Date:**	12/08/20[1]
% Fair Value:	70%	**5 Year Valuation Multiple Estimate:**	7.5%	**Dividend Payment Date:**	12/18/20[2]
Dividend Yield:	4.9%	**5 Year Price Target**	$30	**Years Of Dividend Growth:**	39
Dividend Risk Score:	C	**Retirement Suitability Score:**	B	**Last Dividend Increase:**	5.0%

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 $6.3 billion in annual revenue and its market capitalization is $5.1 billion. Old Republic also has an outstanding dividend increase streak of 39 years.

Old Republic reported third quarter earnings on October 22nd, with results coming in easily ahead of expectations on both the top and bottom lines. Core earnings-per-share, which excludes investment gains and losses, came to $0.62 in Q3, up from $0.51 in the year-ago period, and blowing past estimates of just $0.43. Strength came from both of the company's core insurance segments. Total revenue was up from $1.77 billion in the year-ago period to $1.88 billion in Q3. Net investment income was down -5.6% year-over-year to $106 million as the company's investment base continues to grow, but lower yields offset that growth.

The combined ratio came to 92% against 94.4% in the same period last year, improving margins and profitability. Book value came to $20.39 at the end of the quarter, up from $19.68 at the end of June. We now estimate $1.95 in earnings-per-share for this year after a very strong Q3 showing.

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	***$1.95***	***$2.37***
DPS	$0.69	$0.70	$0.71	$0.72	$0.73	$0.74	$0.75	$0.76	$0.78	$0.80	***$0.84***	***$0.97***
Shares[3]	259	259	259	260	261	262	263	269	303	303	***303***	***303***

As one would expect, Old Republic's earnings-per-share has 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, with Q3 results bucking this trend. Still, Old Republic looks poised for growth ahead, particularly if equity markets are strong. We note that additional caution is warranted for this year given the extreme uncertainty surrounding the COVID-19 pandemic, but long-term holders should find value in Old Republic's earnings streams and growth prospects.

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.

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[1] Estimated date

[2] Estimated date

[3] 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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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	***8.7***	***12.5***
Avg. Yld.	5.4%	6.3%	7.3%	5.1%	4.7%	4.6%	4.1%	3.8%	3.7%	3.6%	***4.9%***	***3.3%***

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 higher than the current 8.7, and lower than its average of 14. We are therefore forecasting a 7%+ tailwind to annual total returns from the valuation over the coming years.

We see the yield staying very strong 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%	***43%***	***41%***

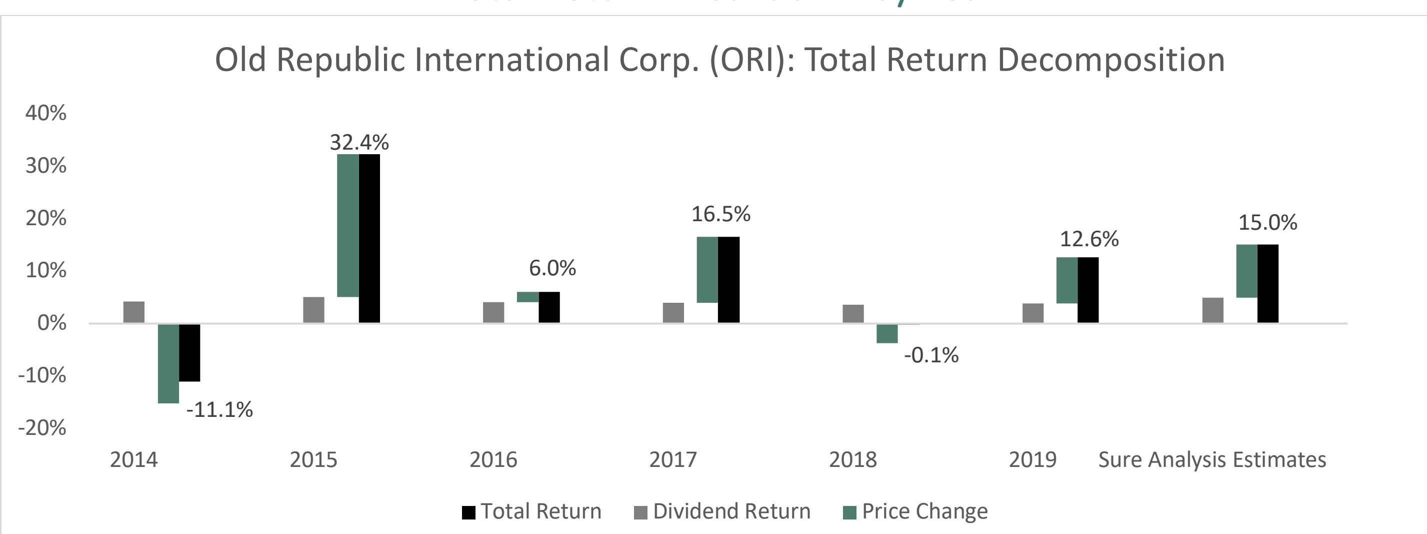
The payout ratio has fallen significantly in recent years. Given slow payout growth coupled with strong earnings that trend could continue. Overall, Old Republic is in significantly better shape than it was a few years ago.

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, which is the product of prudent underwriting. We note that Old Republic is thriving in what should be a tough environment in 2020.

Final Thoughts & Recommendation

Overall, Old Republic looks compelling if one can stomach the potential risk of owning an insurer. The stock is well below our view of fair value and offers forecasted total annual returns of 15% in the coming years, consisting of the current 4.9% yield, 4% earnings-per-share growth and a strong 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 are reiterating Old Republic with a buy rating on the very low valuation, which we think prices in current risks.

Total Return Breakdown by Year



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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	936
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	3.11

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

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