Old Republic International Corp. (ORI)

Updated January 31st, 2021 by Josh Arnold

Key Metrics

Current Price:	$18	**5 Year CAGR Estimate:**	11.4%	**Market Cap:**	$5.4 B
Fair Value Price:	$22	**5 Year Growth Estimate:**	4.0%	**Ex-Dividend Date:**	03/08/21[1]
% Fair Value:	83%	**5 Year Valuation Multiple Estimate:**	3.7%	**Dividend Payment Date:**	03/18/21[2]
Dividend Yield:	4.7%	**5 Year Price Target**	$26	**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 114 years have not always been easy, as is the case with most insurers. 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 $5.4 billion. Old Republic also has an outstanding dividend increase streak of 39 years.

Old Republic reported fourth quarter and full-year earnings on January 28th, 2021 with results coming in well ahead of expectations on both the top and bottom lines. The company said its general insurance business was negatively impacted by lower overall employment levels among customers, resulting in lower earned premiums for Q4. But the extremely strong housing market offset that weakness with the company's title insurance business.

Earnings-per-share came to 75 cents on an adjusted basis, blowing past the 47 cents per share earned in the same period last year. The company's combined ratio was just 90.3%, down 500bps from 95.3% in the same period a year ago. The combined ratio is an insurance company's costs divided by revenue, so the lower the better.

Net premiums and fees earned soared 13% in Q4 to $1.91 billion, while net investment income suffered from lower rates, and fell -2.9% to $110 million. Total operating revenue was up to $2.05 billion from $1.83 billion in the same period a year ago. General insurance was down -2.2% to $861 million, but its margins improved substantially with a combined ratio of just 92.7%, down from 98.8% year-over-year. Title insurance was up 31% to $1.03 billion, and a combined ratio of just 88.1%, down from 91.5% a year ago.

We see the factors that drove outsized profit growth in 2020 as temporary, so we forecast a return to more normalized earnings in 2021; our initial estimate is $1.80 in earnings-per-share.

Growth on a Per-Share Basis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
EPS	-$0.86	-$0.39	$1.25	$0.84	$1.28	$1.47	$1.11	$1.86	$1.84	$2.24	***$1.80***	***$2.19***
DPS	$0.70	$0.71	$0.72	$0.73	$0.74	$0.75	$0.76	$0.78	$0.80	$0.84	***$0.84***	***$0.97***
Shares[3]	259	259	260	261	262	263	269	303	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, and we note this growth will almost certainly be anything but linear.

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 (once rates normalize) as well as lower losses, with recent results supporting this. Keep in mind, however, that gains likely will not be constant as the insurance business is highly cyclical. Still, Old Republic looks poised for growth ahead, particularly if equity markets are 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, late 2019, and again in late 2020. The stock's yield is still very strong even with its sluggish payout growth, so income investors will likely find it attractive. The special dividends make the total yield for the year close to 10%.

Valuation Analysis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Now	2026
Avg. P/E	---	---	11.2	18.6	12.5	12.6	18.0	11.4	12.0	7.8	***10.0***	***12.0***
Avg. Yld.	6.3%	7.3%	5.1%	4.7%	4.6%	4.1%	3.8%	3.7%	3.6%	4.8%	***4.7%***	***3.7%***

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 times earnings, which is higher than the current 10, and lower than its average of ~14. We are therefore forecasting a tailwind to annual total returns from the valuation over the coming years.

We see the yield staying very strong. 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	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
Payout	---	---	58%	87%	59%	51%	68%	42%	43%	38%	***47%***	***45%***

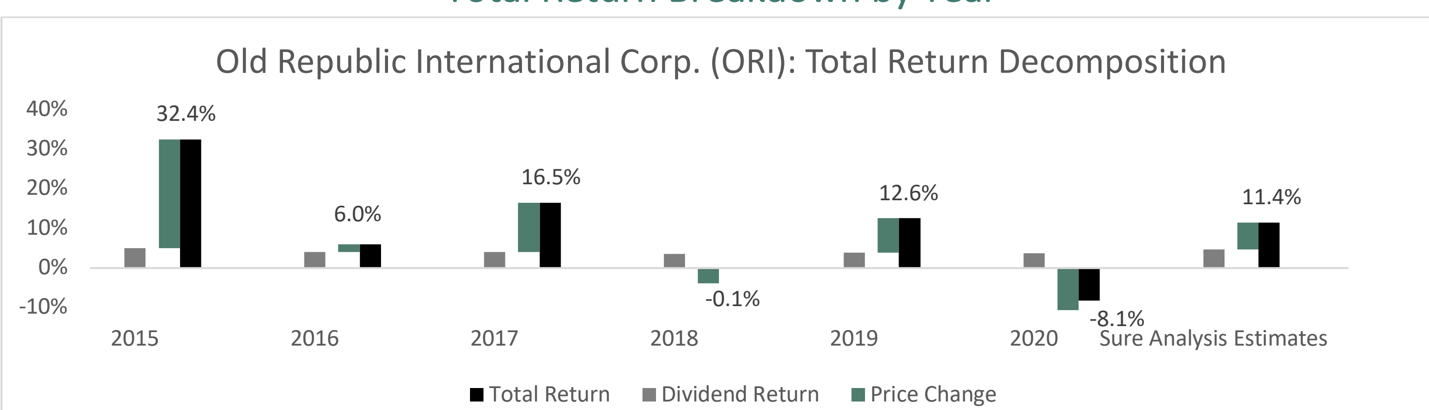
The payout ratio has fallen significantly in recent years. Given slow payout growth coupled with strong earnings that trend could continue. Overall, Old Republic is in significantly better shape than it was a few years ago.

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 would be exposed to a weakening housing market, but no signs have emerged of that being the case.

Final Thoughts & Recommendation

Overall, Old Republic continues to look 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 11%+ in the coming years, consisting of the current 4.7% 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	2011	2012	2013	2014	2015	2016	2017	2018	2019
Revenue	4645	4970	5443	5531	5766	5900	6263	6022	7214
Net Profit	-141	-69	448	410	422	467	561	371	1056
Net Margin	-3.0%	-1.4%	8.2%	7.4%	7.3%	7.9%	8.9%	6.2%	14.6%
Free Cash Flow	-95	532	687	-181	688	637	453	761	936
Income Tax	-96	-60	225	200	210	219	165	68	266

Balance Sheet Metrics

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

Profitability & Per Share Metrics

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