Old Republic International Corp. (ORI)

Updated May 3rd, 2021 by Josh Arnold

Key Metrics

Current Price:	$25	**5 Year CAGR Estimate:**	6.4%	**Market Cap:**	$7.3 B
Fair Value Price:	$28	**5 Year Growth Estimate:**	1.0%	**Ex-Dividend Date:**	06/08/21[1]
% Fair Value:	91%	**5 Year Valuation Multiple Estimate:**	2.0%	**Dividend Payment Date:**	06/15/21
Dividend Yield:	3.5%	**5 Year Price Target**	$29	**Years Of Dividend Growth:**	40
Dividend Risk Score:	C	**Retirement Suitability Score:**	B	**Last Dividend Increase:**	4.8%

Overview & Current Events

Old Republic, founded in 1907, markets, underwrites and provides risk management services for a variety of general and title insurances. It generates $7.6 billion in annual revenue and its market capitalization is $7.3 billion. Old Republic also has an outstanding dividend increase streak of 40 years.

Old Republic posted first quarter earnings on April 22nd, 2021, with results coming in ahead of expectations on both the top and bottom lines. The company reported earnings-per-share of 69 cents excluding investment gains and losses, which was well ahead of the estimate of 45 cents, and up sharply from the year-ago period result of 47 cents. Old Republic saw a combined ratio of 90.9% in Q1, which was a strong improvement from 95.1% in the year-ago period. A lower combined ratio means the company is producing better profit margins by spending less of its premium revenue on servicing claims.

Net premiums, fees and other income was $1.88 billion, up 18% year-over-year, as general insurance was up fractionally, but title insurance produced a 40% gain. Q1 net investment income was $104 million, down -9% year-over-year as lower yields offset growth in the invested base. Operating expenses were up 12% to $1.7 billion, as SG&A rose 23% to $1.1 billion. We have booted our estimate for this year to $2.30 in earnings-per-share following strong Q1 results.

Old Republic also boosted its dividend by a penny per share per quarter, a 4.8% increase that marks the fortieth consecutive year of dividend increases.

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	***$2.30***	***$2.42***
DPS	$0.70	$0.71	$0.72	$0.73	$0.74	$0.75	$0.76	$0.78	$0.80	$0.84	***$0.88***	***$1.12***
Shares[2]	259	259	260	261	262	263	269	303	303	303	***298***	***290***

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 1% annually to earnings-per-share, and we note this growth will almost certainly be anything but constant.

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. Given equity markets are near all-time highs, and that yields are still low, we expect below-trend growth for Old Republic.

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

[1] Estimated date

[2] 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.

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	***10.9***	***12.0***
Avg. Yld.	6.3%	7.3%	5.1%	4.7%	4.6%	4.1%	3.8%	3.7%	3.6%	4.8%	***3.5%***	***3.9%***

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 times earnings, which is higher than the current 10.9, 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%	***38%***	***47%***

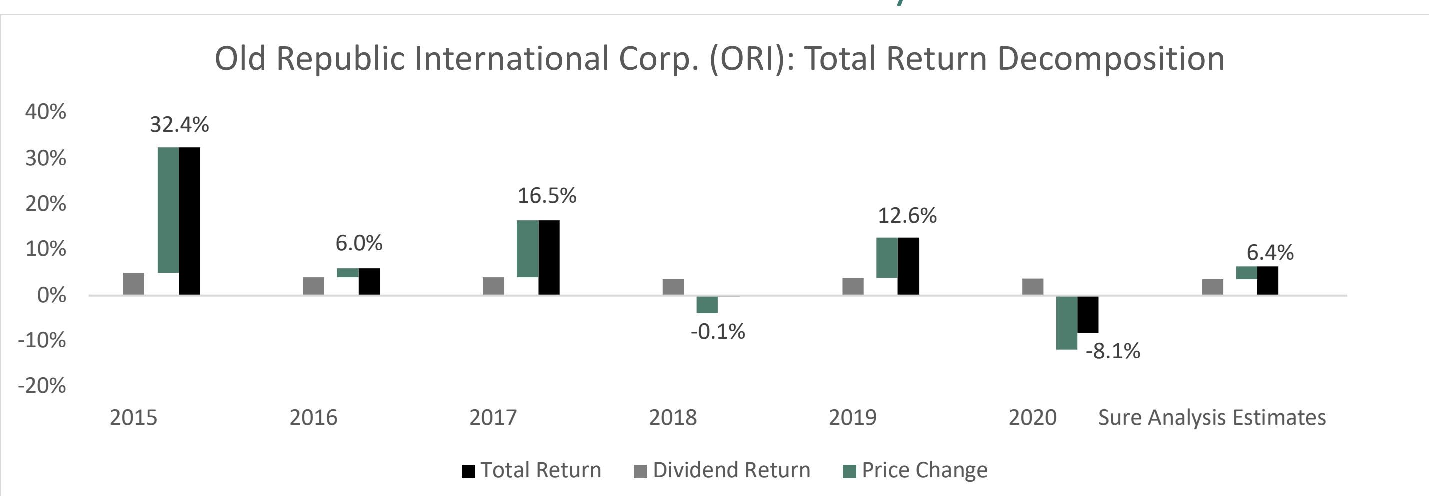
The payout ratio has fallen significantly in recent years. Given slow payout growth coupled with strong earnings that trend could continue. Overall, Old Republic is in significantly better shape than it was a few years ago.

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 looks decent from an income stock perspective if one can stomach the potential risk of owning an insurer. The stock is below our view of fair value and offers forecasted total annual returns of 6.4% in the coming years, consisting of the current 3.5% yield, 1% earnings-per-share growth and a 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 downgrading the stock from buy to hold after the big run it has had in recent months.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020
Revenue	4970	5443	5531	5766	5900	6263	6022	7214	7166
Net Profit	-69	448	410	422	467	561	371	1056	559
Net Margin	-1.4%	8.2%	7.4%	7.3%	7.9%	8.9%	6.2%	14.6%	7.8%
Free Cash Flow	532	687	-181	688	637	453	761	936	1185
Income Tax	-60	225	200	210	219	165	68	266	130

Balance Sheet Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020
Total Assets	16,227	16,534	16,988	17,102	18,592	19,404	19,327	21,076	22,815
Cash & Equivalents	101	153	137	160	146	126	100	79	119
Acc. Receivable	4,372	4,406	4,710	4,494	4,622	4,842	4,984	5,291	5,957
Total Liabilities	12,631	12,759	13,064	13,221	14,131	14,670	14,181	15,076	16,629
Long-Term Debt	573	569	965	953	1,529	1,449	981	974	966
Total Equity	3,596	3,775	3,924	3,881	4,461	4,733	5,146	6,000	6,187
D/E Ratio	0.16	0.15	0.25	0.25	0.34	0.31	0.19	0.16	0.16

Profitability & Per Share Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020
Return on Assets	-0.4%	2.7%	2.4%	2.5%	2.6%	3.0%	1.9%	5.2%	2.5%
Return on Equity	-1.9%	12.2%	10.6%	10.8%	11.2%	12.2%	7.5%	19.0%	9.2%
ROIC	-1.5%	10.5%	8.9%	8.7%	8.6%	9.2%	6.0%	16.1%	7.9%
Shares Out.	259	259	260	261	262	263	269	303	303
Revenue/Share	19.43	18.53	18.74	19.47	19.91	20.92	20.79	24.77	23.97
FCF/Share	2.08	2.34	(0.61)	2.32	2.15	1.51	2.53	3.11	3.96

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