



Old Republic International Corp. (ORI)

Updated July 24th, 2021, by Josh Arnold

Key Metrics

Current Price:	\$24	5 Year CAGR Estimate:	7.2%	Market Cap:	\$7.3 B
Fair Value Price:	\$29	5 Year Growth Estimate:	0.0%	Ex-Dividend Date:	09/08/21 ¹
% Fair Value:	83%	5 Year Valuation Multiple Estimate:	3.7%	Dividend Payment Date:	09/15/21
Dividend Yield:	3.7%	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. The company engages in underwriting and related services, primarily in the US, but in Canada as well. Old Republic has three operating segments: General Insurance, Title Insurance, and a run-off business. 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 reported second quarter earnings on July 22nd, 2021, and as has become customary for the insurer, it sailed well past estimates. Total revenue was up 27% year-over-year to \$2.13 billion, and adjusted profits of 73 cents per share were 21 cents better than estimates. Net investment income came to \$108 million, which was down fractionally year-over-year. Net premiums and fees were \$1.98 billion, up from \$1.54 billion in last year's Q2.

The company's general insurance combined ratio was 94.0%, a sizable improvement from 98.4% in the year-ago period. The gain was driven by strong premium rate increases, as well as new business production, which helps with operating leverage. The company's title insurance combined ratio also improved from 92.1% to 88.4% year-over-year thanks to low interest rates and a hot real estate market.

We now see \$2.40 in earnings-per-share for this year, up slightly from our last report, but note it may be difficult for the company to grow from this very high base in the near-term.

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	\$2.40	\$2.40
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
Shares²	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's growth rate at 0%, down from 1%.

We see Old Republic as struggling to grow from this year's high base of earnings because rates are extremely low and remain unable to sustain any moves higher. This impacts investment income negatively. In addition, the very hot real estate market will not stay that way forever, creating headwinds for what is currently Old Republic's primary source of growth. In addition, we see combined ratios as moving higher once the economy is fully back open and claims return to normalized levels.

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%.

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.



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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%	3.7%	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, and lower than its average of ~14. We are therefore forecasting a nice 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%	37%	47%

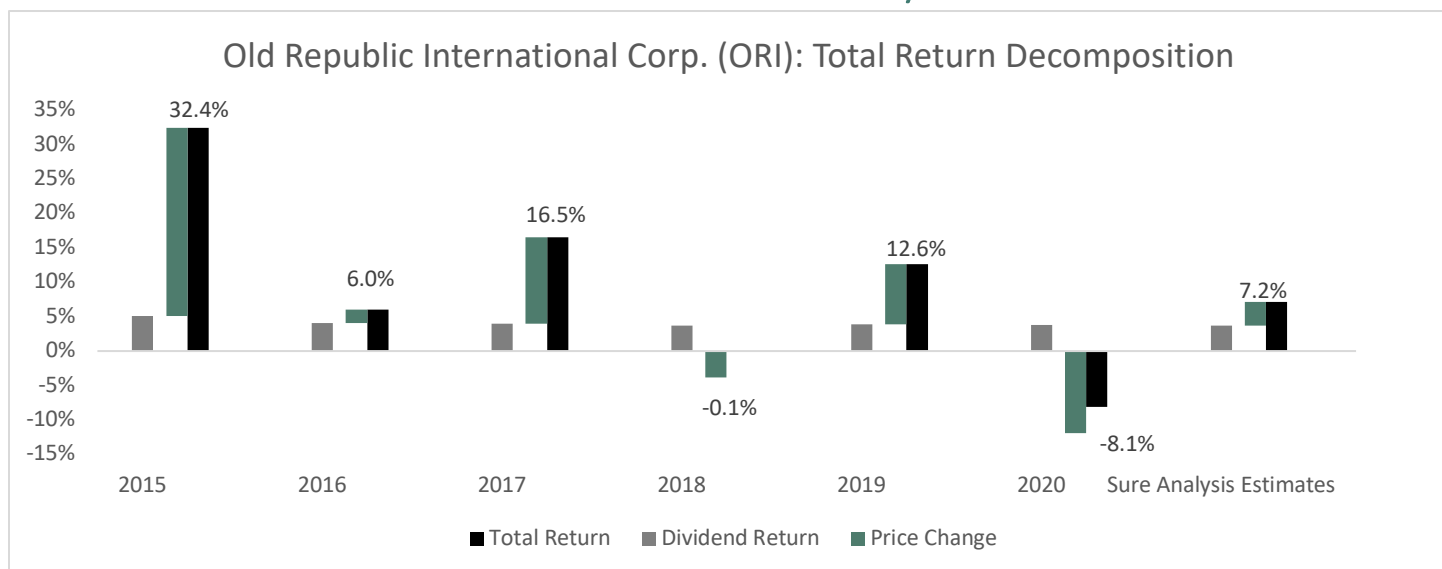
The payout ratio has fallen significantly in recent years. Given slow payout growth coupled with strong earnings that trend could continue. Overall, Old Republic is in significantly better shape than it was a few years ago.

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 7.2% in the coming years, consisting of the current 3.7% yield, no 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 reiterating our hold rating following second quarter results.

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.

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