RLI Corporation (RLI)

Updated November 5th, 2021 by Jonathan Weber

Key Metrics

Current Price:	$111	**5 Year CAGR Estimate:**	-5.7%	**Market Cap:**	$5.0B
Fair Value Price:	$67	**5 Year Growth Estimate:**	3.0%	**Ex-Dividend Date:**	11/28/21[1]
% Fair Value:	167%	**5 Year Valuation Multiple Estimate:**	-9.7%	**Dividend Payment Date:**	12/20/21
Dividend Yield:	0.9%	**5 Year Price Target**	$77	**Years Of Dividend Growth:**	46
Dividend Risk Score:	A	**Retirement Suitability Score:**	C	**Last Dividend Increase:**	4.2%

Overview & Current Events

RLI Corp. is an insurance company that operates the following business units: Casualty (healthcare & transportation insurance), Property (fire, earthquake, difference in conditions, marine, etc.) and Surety (contract surety coverage, licenses, and bonds). RLI was founded in 1965 and is headquartered in Peoria, Illinois.

RLI Corporation reported its third quarter earnings results on October 20. The company reported revenues of $270 million during the quarter, which was up 3% compared to the revenues that RLI Corporation generated during the previous year's quarter. Gross written premiums rose by 18% year-over-year. Revenue growth was slightly better on a sequential basis, as RLI Corporation's top-line number had been flat during the second quarter. The analyst community had forecasted a smaller revenue increase, which RLI beat by $4 million. RLI was able to grow its net investment income by 8% year over year, to $18 million, impacting profitability positively.

RLI Corporation earned $0.65 per share on an adjusted basis, which seeks to account for one-time items, such as realized gains and losses. RLI's bottom line was up by a quite large 55% compared to the previous year's quarter. RLI Corp. also was able to grow its book value by 10% during the first three quarters of the current year. It is expected that RLI Corporation will generate strong profits this year, with earnings-per-share forecasted at $3.50.

Growth on a Per-Share Basis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
EPS	$2.80	$2.02	$2.57	$2.62	$2.53	$2.08	$2.30	$2.05	$2.57	$2.59	***$3.50***	***$4.06***
DPS	$0.60	$0.63	$0.67	$0.71	$0.75	$0.79	$0.83	$0.87	$0.91	$0.96	***$1.00***	***$1.28***
Shares[2]	42.3	42.5	43.0	43.1	43.5	44.0	44.2	44.5	45.4	45.6	***45.8***	***46.5***

RLI Corp. has not been able to grow its profits consistently over the last decade. Profitability remained high through the last financial crisis, which is a positive, but since then, earnings have gone up and down without any clear direction. This is, in large part, because low interest rates have reduced the income RLI can generate with its insurance float.

Rising interest rates were a positive for the company's profitability during the Fed's tightening cycle, but as the Fed has gone back to a more dovish policy, this tailwind will likely disappear. Tax legislation changes are a tailwind for RLI Corporation, as this has increased the company's net earnings substantially, thanks to a drastic reduction in the company's tax rate. We believe that RLI Corporation should be able to grow its profits slightly going forward, as written premiums continue to grow, which provides some revenue growth tailwinds over the coming years. RLI has, in the recent past, also been able to improve its combined ratio, which should help in growing profits over the coming years. Due to the company's choppy earnings history, we do not forecast a high long-term earnings-per-share growth rate, though. Instead, we believe that 3% annual earnings-per-share growth is realistic.

RLI has increased its dividend, on average, by 5% annually through the last decade, which was primarily possible due to a steady increase in the company's dividend payout ratio. The company raised its payout by 4.2% in 2021 so far.

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[1] Estimated date

[2] 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	11.0	16.9	15.6	17.2	21.1	31.1	34.3	33.7	35.0	39.8	***31.7***	***19.0***
Avg. Yld.	1.9%	1.8%	1.7%	1.6%	1.4%	1.2%	1.4%	1.3%	1.0%	1.0%	***0.9%***	***1.7%***

RLI Corporation's price to earnings multiple has been moving in a very wide range over the last decade. Shares were valued at a low double-digit price to earnings multiple shortly after the financial crisis, but the company's valuation exploded upwards over the last couple of years. Shares currently trade at a massive premium relative to how shares were valued during much of the past, which is why we see huge downside risk for RLI Corporation's share price.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
Payout	21.4%	31.2%	26.1%	27.1%	29.6%	38.0%	49.7%	42.4%	35.4%	37.1%	***28.6%***	***31.5%***

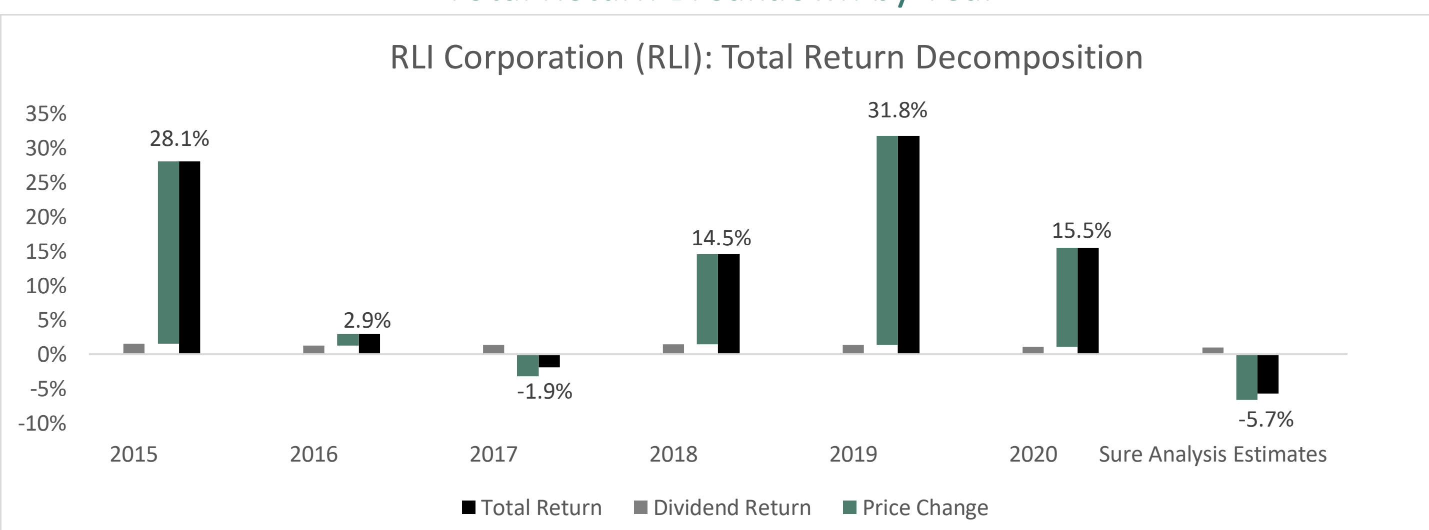
RLI Corporation has raised its regular dividend very steadily over the years, which was possible due to ongoing increases in the company's payout ratio. RLI Corporation still pays out just about one-third of its profits in the form of regular dividends, which makes the payout look sufficiently safe for the foreseeable future. Due to RLI Corporation's low dividend yield, we do not believe that shares are attractive for income investors.

Many financial corporations, including some insurers, experienced significant difficulty during the last recession. RLI remained profitable, and its earnings-per-share actually grew during the 2008-to-2010-time frame. We believe that RLI Corporation will be relatively stable during future recessions as well. Compared to other corporations from the financial industry, RLI Corporation thus looks like a more stable, lower-risk pick.

Final Thoughts & Recommendation

RLI Corporation is a small insurance company which generated solid operating results in recent years, with written premiums and investment income rising relatively reliably. Earnings will likely continue to grow during the next couple of years, but not at an overly fast pace. RLI Corporation does not have a strong long-term track record, and low interest rates could dampen its investment income growth. We believe that shares are heavily overvalued today. Because of this, RLI Corporation earns a sell recommendation from Sure Dividend at current prices.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Revenue	621	663	708	777	796	818	801	820	1,007	984
SG&A Exp.	8	8	9	10	10	10	11	9	13	10
D&A Exp.	3	3	4	5	5	6	7	7	8	
Net Profit	127	103	126	135	138	115	105	64	192	157
Net Margin	20.4%	15.6%	17.8%	17.4%	17.3%	14.1%	13.1%	7.8%	19.0%	16.0%
Free Cash Flow	113	21	117	116	143	158	188	211	270	
Income Tax	57	39	49	54	59	42	(20)	3	41	33

Balance Sheet Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Total Assets	2,655	2,645	2,740	2,776	2,735	2,778	2,947	3,105	3,546	3,938
Cash & Equivalents	81	44	39	31	11	18	24	30	46	62
Accounts Receivable	478	499	507	490	442	415	436	518	545	618
Goodwill & Int. Ass.	60	76	75	73	71	64	59	55	54	54
Total Liabilities	1,862	1,848	1,911	1,930	1,912	1,954	2,094	2,298	2,550	2,803
Accounts Payable	51	44	47	38	38	18	22	23	26	42
Long-Term Debt	100	100	150	150	149	149	149	149	149	149
Shareholder's Equity	793	796	829	845	823	824	854	807	995	1,136
D/E Ratio	0.13	0.13	0.18	0.18	0.18	0.18	0.17	0.18	0.15	0.13

Profitability & Per Share Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Return on Assets	4.9%	3.9%	4.7%	4.9%	5.0%	4.2%	3.7%	2.1%	5.8%	4.2%
Return on Equity	16.0%	13.0%	15.5%	16.2%	16.5%	14.0%	12.5%	7.7%	21.3%	14.7%
ROIC	14.2%	11.6%	13.5%	13.7%	14.0%	11.8%	10.6%	6.6%	18.2%	12.9%
Shares Out.	42.3	42.5	43.0	43.1	43.5	44.0	44.2	44.5	45.4	45.6
Revenue/Share	14.49	15.35	16.26	17.73	18.05	18.41	18.00	18.30	22.24	21.68
FCF/Share	2.63	0.49	2.70	2.65	3.23	3.56	4.23	4.71	5.97	

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