RLI Corporation (RLI)

Updated February 28th, 2022 by Jonathan Weber

Key Metrics

Current Price:	$102	**5 Year CAGR Estimate:**	-2.1%	**Market Cap:**	$4.6 B
Fair Value Price:	$74	**5 Year Growth Estimate:**	3.0%	**Ex-Dividend Date:**	05/25/22[1]
% Fair Value:	138%	**5 Year Valuation Multiple Estimate:**	-6.2%	**Dividend Payment Date:**	06/18/22[2]
Dividend Yield:	1.0%	**5 Year Price Target**	$86	**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 fourth quarter earnings results on January 26. The company reported revenues of $320 million during the quarter, which was up 6% compared to the revenues that RLI Corporation generated during the previous year's quarter. Gross written premiums rose by 12% year-over-year. Revenue growth also improved on a sequential basis, as RLI Corporation's top-line number had grown by only 3% during the previous quarter. The analyst community had forecasted a weaker revenue performance, which RLI beat by a hefty $45 million. RLI was able to grow its net investment income by 8% year over year, to $18 million, impacting profitability positively.

RLI Corporation earned $1.26 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 68% compared to the previous year's quarter. RLI Corp. also was able to grow its book value by 20% during fiscal 2021. Earnings-per-share came in at an attractive level of $3.87 for the year, which is the highest profit in the last decade.

Growth on a Per-Share Basis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
EPS	$2.02	$2.57	$2.62	$2.53	$2.08	$2.30	$2.05	$2.57	$2.59	$3.87	***$3.90***	***$4.52***
DPS	$0.63	$0.67	$0.71	$0.75	$0.79	$0.83	$0.87	$0.91	$0.94	$0.99	***$1.00***	***$1.28***
Shares[3]	42.5	43.0	43.1	43.5	44.0	44.2	44.5	45.4	45.6	45.7	***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.

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[1] Estimated date

[2] Estimated date

[3] 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	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Now	2027
Avg. P/E	16.9	15.6	17.2	21.1	31.1	34.3	33.7	35.0	39.8	28.9	***26.2***	***19.0***
Avg. Yld.	1.8%	1.7%	1.6%	1.4%	1.2%	1.4%	1.3%	1.0%	1.0%	0.9%	***1.0%***	***1.5%***

RLI Corporation's price to earnings multiple has been moving in a very wide range in the past. 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 have become less expensive since our last update, but they still are very pricey considering the growth outlook. We forecast considerable multiple compression over the coming years.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Payout	31.2%	26.1%	27.1%	29.6%	38.0%	49.7%	42.4%	35.4%	37.1%	25.5%	***25.6%***	***28.2%***

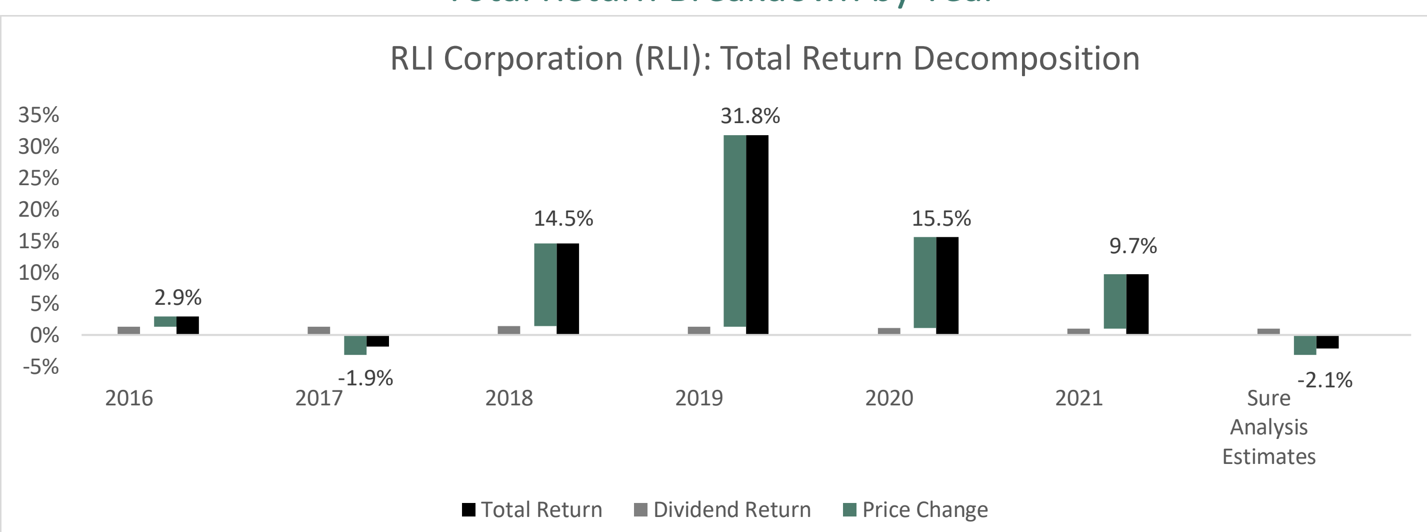
RLI Corporation has raised its regular dividend very steadily over the years, which was possible due to ongoing increases in the company's payout ratio. RLI Corporation still pays out just about one-quarter of its profits in the form of regular dividends, which makes the payout look sufficiently safe 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, even though results during 2021 were up strongly versus the previous year. We believe that shares are 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	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Revenue	663	708	777	796	818	801	820	1,007	988	1,184
SG&A Exp.	8	9	10	10	10	11	9	13	10	13
D&A Exp.	3	4	5	5	6	7	7	8	7	7
Net Profit	103	126	135	138	115	105	64	192	157	279
Net Margin	15.6%	17.8%	17.4%	17.3%	14.1%	13.1%	7.8%	19.0%	15.9%	23.6%
Free Cash Flow	21	117	116	143	158	188	211	270	257	377
Income Tax	39	49	54	59	42	(20)	3	41	33	65

Balance Sheet Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Total Assets	2,645	2,740	2,776	2,735	2,778	2,947	3,105	3,546	3,938	4,508
Cash & Equivalents	44	39	31	11	18	24	30	46	62	89
Accounts Receivable	499	507	490	442	415	436	518	545	618	775
Goodwill & Int. Ass.	76	75	73	71	64	59	55	54	54	54
Total Liabilities	1,848	1,911	1,930	1,912	1,954	2,094	2,298	2,550	2,803	3,279
Accounts Payable	44	47	38	38	18	22	23	26	42	43
Long-Term Debt	100	150	150	149	149	149	149	149	149	200
Shareholder's Equity	796	829	845	823	824	854	807	995	1,136	1,229
LTD/E Ratio	0.13	0.18	0.18	0.18	0.18	0.17	0.18	0.15	0.13	0.16

Profitability & Per Share Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Return on Assets	3.9%	4.7%	4.9%	5.0%	4.2%	3.7%	2.1%	5.8%	4.2%	6.6%
Return on Equity	13.0%	15.5%	16.2%	16.5%	14.0%	12.5%	7.7%	21.3%	14.7%	23.6%
ROIC	11.6%	13.5%	13.7%	14.0%	11.8%	10.6%	6.6%	18.2%	12.9%	20.6%
Shares Out.	42.5	43.0	43.1	43.5	44.0	44.2	44.5	45.4	45.6	45.7
Revenue/Share	15.35	16.26	17.73	18.05	18.41	18.00	18.30	22.24	21.77	25.89
FCF/Share	0.49	2.70	2.65	3.23	3.56	4.23	4.71	5.97	5.67	8.24

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