RLI Corporation (RLI)

Updated May 27th, 2022 by Jonathan Weber

Key Metrics

Current Price:	$120	**5 Year CAGR Estimate:**	-2.6%	**Market Cap:**	$5.3B
Fair Value Price:	$86	**5 Year Growth Estimate:**	3.0%	**Ex-Dividend Date:**	08/25/22[1]
% Fair Value:	140%	**5 Year Valuation Multiple Estimate:**	-6.6%	**Dividend Payment Date:**	09/18/22[2]
Dividend Yield:	0.9%	**5 Year Price Target**	$99	**Years Of Dividend Growth:**	47
Dividend Risk Score:	A	**Retirement Suitability Score:**	C	**Rating:**	Sell

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 first quarter earnings results on April 28. The company reported revenues of $260 million during the quarter, which was down 8% compared to the revenues that RLI Corporation generated during the previous year's quarter. Gross written premiums rose by 22% year-over-year. Revenue growth was down on a sequential basis, however, as the company had recorded a solid revenue increase during the previous quarter. The analyst community had forecasted a better revenue performance, which RLI missed by $19 million. Thanks to a low combined ratio, RLI Corp was still able to grow its profits compared to the previous year's quarter, despite the revenue decline.

RLI Corporation earned $1.43 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 64% compared to the previous year's quarter. RLI Corp's book value totaled $25.45 at the end of the second quarter, down slightly versus the end of the previous year, which was partially the result of its dividend payments. The dividend was increased by 4% in May.

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	***$4.50***	***$5.22***
DPS	$0.63	$0.67	$0.71	$0.75	$0.79	$0.83	$0.87	$0.91	$0.94	$0.99	***$1.04***	***$1.33***
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 on average, although there were some ups and downs over the quarters. This 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, however, despite the solid momentum when it comes to the company's margins and its gross written premium growth rate. Instead, we believe that 3% annual earnings-per-share growth is a realistic long-term estimate.

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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	***26.7***	***19.0***
Avg. Yld.	1.8%	1.7%	1.6%	1.4%	1.2%	1.4%	1.3%	1.0%	1.0%	0.9%	***0.9%***	***1.3%***

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 since then. Shares have risen since our last update, but so have earnings-per-share estimates. We do believe that shares are trading above fair value today. 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%	***23.1%***	***25.4%***

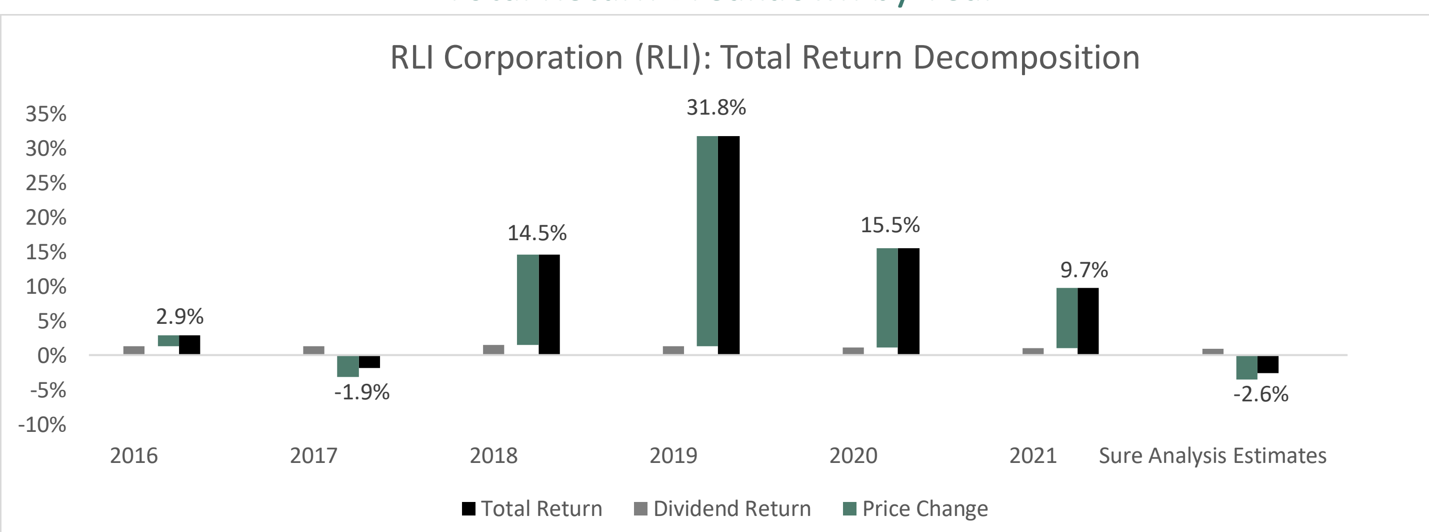
RLI Corporation has raised its regular dividend very steadily over the years, which was possible due to ongoing increases in the company's payout ratio. RLI Corporation still pays out just about one-quarter of its profits in the form of regular dividends, which makes the payout look sufficiently safe 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 at a solid pace. 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 strong, while the outlook for 2022 is good as well. We believe that shares are substantially 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.