Old Republic International Corp. (ORI)

Updated August 6th, 2022, by Josh Arnold

Key Metrics

Current Price:	$23	**5 Year CAGR Estimate:**	6.7%	**Market Cap:**	$6.8 B
Fair Value Price:	$28	**5 Year Growth Estimate:**	-1.0%	**Ex-Dividend Date:**	09/02/22[1]
% Fair Value:	82%	**5 Year Valuation Multiple Estimate:**	4.0%	**Dividend Payment Date:**	09/15/22
Dividend Yield:	4.0%	**5 Year Price Target**	$27	**Years Of Dividend Growth:**	41
Dividend Risk Score:	B	**Retirement Suitability Score:**	B	**Rating:**	Hold

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 $8 billion in annual revenue and its market capitalization is $6.8 billion. Old Republic also has an outstanding dividend increase streak of 41 years.

Old Republic reported second quarter earnings on July 28th, 2022, and results were much better than expected on both the top and bottom lines. Earnings-per-share came to 69 cents, which was nine cents ahead of estimates. Revenue was flat year-over-year at $2.13 billion, which was $120 million better than expected.

Pretax income excluding investment changes was $263 million in Q2, with general insurance outperforming as rising mortgage rates saw title insurance struggle somewhat. Both general and title insurance performed well on a combined ratio basis, with those values at 90.9% and 91.4%, respectively.

Consolidated net premiums and fees earned were consistent for the quarter year-over-year, with general insurance seeing an 8.8% gain that was mostly offset by a 7.1% decline in title insurance. Net investment income was up slightly, reflecting growth in the invested asset base, offset by lower yields.

We see $2.55 in earnings-per-share for this year following Q2 results.

Growth on a Per-Share Basis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
EPS	-$0.39	$1.25	$0.84	$1.28	$1.47	$1.11	$1.86	$1.84	$2.24	$3.08	***$2.55***	***$2.43***
DPS	$0.71	$0.72	$0.73	$0.74	$0.75	$0.76	$0.78	$0.80	$0.84	$0.88	***$0.92***	***$1.12***
Shares[2]	259	260	261	262	263	269	303	303	303	303	***303***	***303***

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. We forecast Old Republic's growth rate at -1%, down from 0% previously.

We see Old Republic as struggling to grow from last 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, which is title insurance. In addition, we see combined ratios as moving higher once the economy is fully back open and claims return to normalized levels. These headwinds began to appear in second quarter results.

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 in 2019, and again in late 2020. The special dividend for

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[1] Estimated date

[2] Share count in millions

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2021 was a very robust $1.50. 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%.

Valuation Analysis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Now	2027
Avg. P/E	---	11.2	18.6	12.5	12.6	18.0	11.4	12.0	7.8	7.7	***9.0***	***11.0***
Avg. Yld.	7.3%	5.1%	4.7%	4.6%	4.1%	3.8%	3.7%	3.6%	4.8%	3.7%	***4.0%***	***4.2%***

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 11 times earnings, which is higher than the current 9, and lower than its average of ~12.4. 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	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Payout	---	58%	87%	59%	51%	68%	42%	43%	38%	29%	***36%***	***46%***

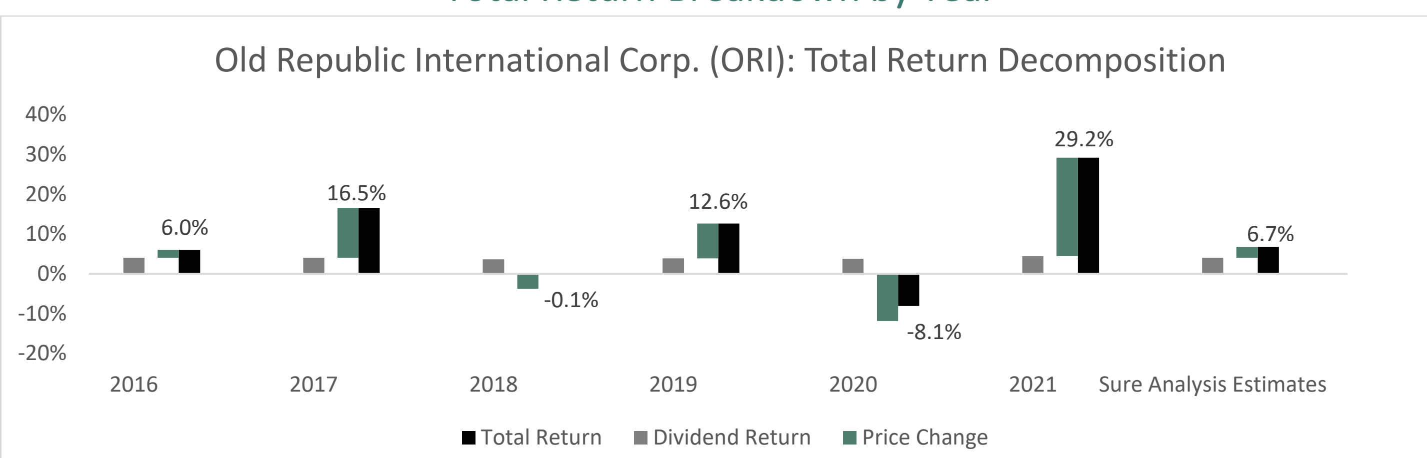
The payout ratio has fallen significantly in recent years. Given slow payout growth coupled with strong earnings that trend could continue. Overall, Old Republic is in significantly better shape than it was a few years ago. We note the lack of earnings growth projected could see the payout ratio rise somewhat in the near future.

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, and signs of that hurting title insurance have cropped up in 2022.

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 well below our view of fair value and offers forecasted total annual returns of 6.7% in the coming years, consisting of the current 4% yield, 1% earnings-per-share contraction, 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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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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Income Statement Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Revenue	4970	5443	5531	5766	5900	6263	6022	7214	7166	9342
Net Profit	-69	448	410	422	467	561	371	1056	559	1534
Net Margin	-1.4%	8.2%	7.4%	7.3%	7.9%	8.9%	6.2%	14.6%	7.8%	16.4%
Free Cash Flow	532	687	-181	688	637	453	761	936	1185	1312
Income Tax	-60	225	200	210	219	165	68	266	130	388

Balance Sheet Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Total Assets	16,227	16,534	16,988	17,102	18,592	19,404	19,327	21,076	22,815	24,982
Cash & Equivalents	101	153	137	160	146	126	100	79	119	11,400
Acc. Receivable	4,372	4,406	4,710	4,494	4,622	4,842	4,984	5,291	5,957	6,712
Total Liabilities	12,631	12,759	13,064	13,221	14,131	14,670	14,181	15,076	16,629	18,089
Long-Term Debt	573	569	965	953	1,529	1,449	981	974	966	1,588
Total Equity	3,596	3,775	3,924	3,881	4,461	4,733	5,146	6,000	6,187	6,893
LTD/E Ratio	0.16	0.15	0.25	0.25	0.34	0.31	0.19	0.16	0.16	0.23

Profitability & Per Share Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Return on Assets	-0.4%	2.7%	2.4%	2.5%	2.6%	3.0%	1.9%	5.2%	2.5%	6.4%
Return on Equity	-1.9%	12.2%	10.6%	10.8%	11.2%	12.2%	7.5%	19.0%	9.2%	23.5%
ROIC	-1.5%	10.5%	8.9%	8.7%	8.6%	9.2%	6.0%	16.1%	7.9%	19.6%
Shares Out.	259	259	260	261	262	263	269	303	303	303
Revenue/Share	19.43	18.53	18.74	19.47	19.91	20.92	20.79	24.77	23.97	30.75
FCF/Share	2.08	2.34	(0.61)	2.32	2.15	1.51	2.53	3.11	3.96	4.32

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