Old Republic International Corp. (ORI)

Updated February 21st, 2023, by Josh Arnold

Key Metrics

Current Price:	$27	**5 Year CAGR Estimate:**	4.5%	**Market Cap:**	$7.9 B
Fair Value Price:	$26	**5 Year Growth Estimate:**	2.0%	**Ex-Dividend Date:**	03/02/23[1]
% Fair Value:	104%	**5 Year Valuation Multiple Estimate:**	-0.9%	**Dividend Payment Date:**	03/15/23
Dividend Yield:	3.4%	**5 Year Price Target**	$29	**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 nearly $8 billion in annual revenue and its market capitalization is $7.9 billion. Old Republic also has an outstanding dividend increase streak of 41 years.

Old Republic posted fourth quarter and full-year earnings on January 26th, 2023, and results were mixed. Adjusted fourth quarter earnings-per-share came to 80 cents, which was 24 cents better than expected. Earnings declined from 88 cents per share in the year-ago period. Revenue plummeted 33% year-over-year to $1.83 billion, missing estimates by $130 million.

Net investment income increased from $111 million in the year-ago period to $130 million.

General insurance saw net premiums and fees earned rise year-over-year, adding 6.5% to $987 million, with commercial auto showing the most strength. Title insurance plummeted 29% year-over-year to $836 million, as the housing market continues to weigh on results.

Total operating expenses were $1.7 billion, down from $1.93 billion. The company's combined ratio was 89.6%, worse than the 88.5% from a year ago.

We begin 2023 with an estimate of $2.35 in earnings-per-share.

Growth on a Per-Share Basis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
EPS	$1.25	$0.84	$1.28	$1.47	$1.11	$1.86	$1.84	$2.24	$3.08	$2.79	***$2.35***	***$2.59***
DPS	$0.72	$0.73	$0.74	$0.75	$0.76	$0.78	$0.80	$0.84	$0.88	$0.92	***$0.92***	***$1.12***
Shares[2]	260	261	262	263	269	303	303	303	303	294	***290***	***280***

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 2%, up from -1% previously.

We see Old Republic as struggling to grow from last year's high base of earnings because title insurance is weak, and getting weaker. The once-hot real estate market has slowed materially, creating headwinds for what was 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.

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 2021 was a very robust $1.50, and for 2022, it was $1.00. The stock's yield is still very strong even with its sluggish

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[1] Estimated date

[2] Share count in millions

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	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Now	2028
Avg. P/E	11.2	18.6	12.5	12.6	18.0	11.4	12.0	7.8	7.7	8.7	***11.5***	***11.0***
Avg. Yld.	5.1%	4.7%	4.6%	4.1%	3.8%	3.7%	3.6%	4.8%	3.7%	3.8%	***3.4%***	***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 11 times earnings, which is lower than the current 11.5, and lower than its average of ~12. We are therefore forecasting a small headwind 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	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	58%	87%	59%	51%	68%	42%	43%	38%	29%	33%	***39%***	***43%***

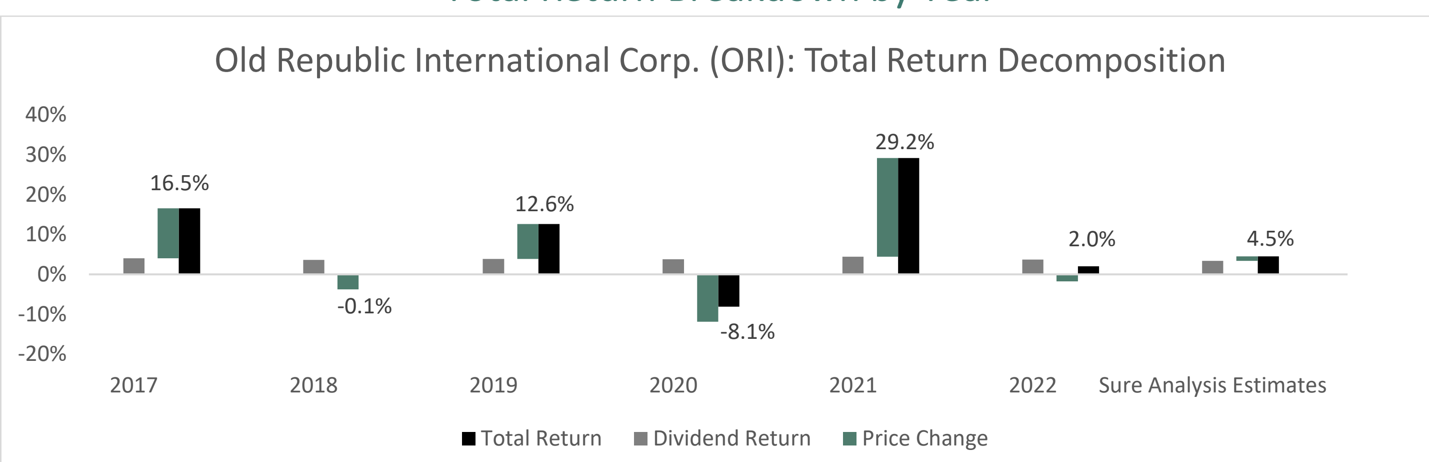
The payout ratio has fallen significantly in recent years. Given slow payout growth coupled with strong earnings that trend could continue. Overall, Old Republic is in significantly better shape than it was a few years ago. We note the lack of earnings growth projected could see the payout ratio rise 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 good from an income stock perspective if one can stomach the potential risk of owning an insurer. The stock is now ahead of our view of fair value and offers forecasted total annual returns of 4.5% in the coming years, consisting of the current 3.4% yield, 2% earnings-per-share growth, and a 0.9% headwind from the potentially declining 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 fourth quarter results.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Revenue	5443	5531	5766	5900	6263	6022	7214	7166	9342	8084
Net Profit	448	410	422	467	561	371	1056	559	1534	686
Net Margin	8.2%	7.4%	7.3%	7.9%	8.9%	6.2%	14.6%	7.8%	16.4%	8.5%
Free Cash Flow	687	-181	688	637	453	761	936	1185	1312	---
Income Tax	225	200	210	219	165	68	266	130	388	171

Balance Sheet Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Total Assets	16,534	16,988	17,102	18,592	19,404	19,327	21,076	22,815	24,982	25,159
Cash & Equivalents	153	137	160	146	126	100	79	119	11,400	12,689
Acc. Receivable	4,406	4,710	4,494	4,622	4,842	4,984	5,291	5,957	6,712	7,516
Total Liabilities	12,759	13,064	13,221	14,131	14,670	14,181	15,076	16,629	18,089	18,993
Long-Term Debt	569	965	953	1,529	1,449	981	974	966	1,588	1,597
Total Equity	3,775	3,924	3,881	4,461	4,733	5,146	6,000	6,187	6,893	6,166
LTD/E Ratio	0.15	0.25	0.25	0.34	0.31	0.19	0.16	0.16	0.23	0.26

Profitability & Per Share Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Return on Assets	2.7%	2.4%	2.5%	2.6%	3.0%	1.9%	5.2%	2.5%	6.4%	2.7%
Return on Equity	12.2%	10.6%	10.8%	11.2%	12.2%	7.5%	19.0%	9.2%	23.5%	10.5%
ROIC	10.5%	8.9%	8.7%	8.6%	9.2%	6.0%	16.1%	7.9%	19.6%	8.5%
Shares Out.	259	260	261	262	263	269	303	303	303	304
Revenue/Share	18.53	18.74	19.47	19.91	20.92	20.79	24.77	23.97	30.75	26.62
FCF/Share	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.