Old Republic International Corp. (ORI)

Updated January 29th, 2024, by Josh Arnold

Key Metrics

Current Price:	$28	**5 Year CAGR Estimate:**	6.5%	**Market Cap:**	$7.6 B
Fair Value Price:	$30	**5 Year Growth Estimate:**	2.0%	**Ex-Dividend Date:**	03/02/24[1]
% Fair Value:	94%	**5 Year Valuation Multiple Estimate:**	1.2%	**Dividend Payment Date:**	03/15/24
Dividend Yield:	3.5%	**5 Year Price Target**	$33	**Years Of Dividend Growth:**	42
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 about $7.6 billion in annual revenue and its market capitalization is $7.6 billion. Old Republic also has an outstanding dividend increase streak of 42 years.

Old Republic posted fourth quarter earnings on January 25th, 2024, and results were mixed. Adjusted earnings-per-share came to 69 cents, which was two cents light of estimates. Revenue beat estimates by $100 million, however, coming in at $1.94 billion. Revenue was down fractionally from Q3, and down from $2.00 billion in the year-ago period. Net premiums and fees came to $1.74 billion, down slightly to Q3 and off from $1.83 billion a year ago.

Net investment income rose to $155 million from $146 million in Q3, and up sharply from $130 million a year ago.

General insurance pretax income, excluding investment gains and losses, declined 19% year-over-year to $195 million. Title insurance remains weak, as operating income fell 2.5% year-over-year to $44 million.

The company's combined ratio deteriorated from 91.9% to 93.3% from the third quarter, and from 89.6% a year ago.

We start 2024 with an earnings estimate of $2.70 per share, which would be lower than 2021 if achieved.

Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
EPS	$0.84	$1.28	$1.47	$1.11	$1.86	$1.84	$2.24	$3.08	$2.79	$2.63	***$2.70***	***$2.98***
DPS	$0.73	$0.74	$0.75	$0.76	$0.78	$0.80	$0.84	$0.88	$0.92	$0.98	***$0.98***	***$1.19***
Shares[2]	261	262	263	269	303	303	303	303	294	272	***260***	***220***

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%.

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. With earnings for this year still forecast well under 2021, that headwind has not yet shown signs of abating.

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 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%, but we note there was no special dividend in 2023.

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[1] Estimated date

[2] Share count in millions

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Valuation Analysis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Now	2029
Avg. P/E	18.6	12.5	12.6	18.0	11.4	12.0	7.8	7.7	8.7	11.2	***10.4***	***11.0***
Avg. Yld.	4.7%	4.6%	4.1%	3.8%	3.7%	3.6%	4.8%	3.7%	3.8%	3.3%	***3.5%***	***3.6%***

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 10.4, and lower than its average of ~12. We are therefore forecasting a small 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	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	87%	59%	51%	68%	42%	43%	38%	29%	33%	37%	***36%***	***40%***

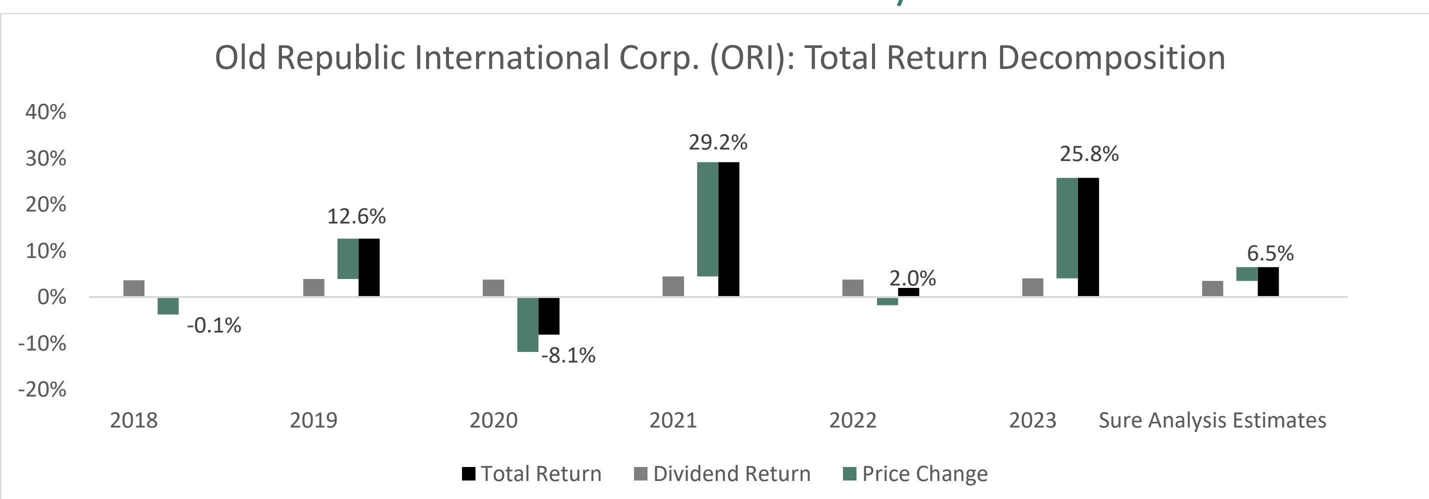
The payout ratio has fallen significantly in recent years. Given slow payout growth coupled with strong earnings, that trend could continue. Overall, Old Republic is in significantly better shape than it was a few years ago. We note the lack of earnings growth projected could see the payout ratio rise 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 is exposed to weak real estate markets through its title insurance business.

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 slightly under our view of fair value estimate and offers forecasted total annual returns of 6.5% in the coming years, consisting of the current 3.5% yield, 2% earnings-per-share growth, and a 1.2% tailwind from the potentially increasing 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, and the lack of a special dividend in 2023. We are reiterating our hold rating following Q4 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	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Revenue	5531	5766	5900	6263	6022	7214	7166	9342	8084	7258
Net Profit	410	422	467	561	371	1056	559	1534	686	599
Net Margin	7.4%	7.3%	7.9%	8.9%	6.2%	14.6%	7.8%	16.4%	8.5%	8.2%
Free Cash Flow	-181	688	637	453	761	936	1185	1312	1171	---
Income Tax	200	210	219	165	68	266	130	388	171	149

Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Assets	16,988	17,102	18,592	19,404	19,327	21,076	22,815	24,982	25,159	26,501
Cash & Equivalents	137	160	146	126	100	79	119	11,400	12,689	13,375
Acc. Receivable	4,710	4,494	4,622	4,842	4,984	5,291	5,957	6,712	7,516	8,153
Total Liabilities	13,064	13,221	14,131	14,670	14,181	15,076	16,629	18,089	18,993	20,091
Long-Term Debt	965	953	1,529	1,449	981	974	966	1,588	1,597	1,591
Total Equity	3,924	3,881	4,461	4,733	5,146	6,000	6,187	6,893	6,166	6,411
LTD/E Ratio	0.25	0.25	0.34	0.31	0.19	0.16	0.16	0.23	0.26	0.25

Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Return on Assets	2.4%	2.5%	2.6%	3.0%	1.9%	5.2%	2.5%	6.4%	2.7%	2.3%
Return on Equity	10.6%	10.8%	11.2%	12.2%	7.5%	19.0%	9.2%	23.5%	10.5%	9.5%
ROIC	8.9%	8.7%	8.6%	9.2%	6.0%	16.1%	7.9%	19.6%	8.5%	7.6%
Shares Out.	260	261	262	263	269	303	303	303	304	285
Revenue/Share	18.74	19.47	19.91	20.92	20.79	24.77	23.97	30.75	26.62	25.46
FCF/Share	(0.61)	2.32	2.15	1.51	2.53	3.11	3.96	4.32	3.86	---

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