RLI Corporation (RLI)

Updated February 5th, 2024 by Jonathan Weber

Key Metrics

Current Price:	$137	**5 Year CAGR Estimate:**	-1.6%	**Market Cap:**	$6.3 B
Fair Value Price:	$104	**5 Year Growth Estimate:**	3.0%	**Ex-Dividend Date:**	02/28/24[1]
% Fair Value:	132%	**5 Year Valuation Multiple Estimate:**	-5.4%	**Dividend Payment Date:**	03/20/24[2]
Dividend Yield:	0.8%	**5 Year Price Target**	$120	**Years Of Dividend Growth:**	48
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 fourth quarter earnings results on January 24. The company reported revenues of $430 million for the quarter, which was up 20% compared to the revenues that RLI Corporation generated during the previous year's quarter. Net earned premiums rose by 15% year-over-year. Realized gains also were higher than during the previous year's period, which had a positive impact on the company's reported revenues as well, although this is a more cyclical number that depends on factors such as equity and bond market performance. Higher net investment income, which was up 14% year over year, was beneficial for RLI's consolidated revenues as well.

RLI Corporation earned $1.54 per share on a non-GAAP, or adjusted, basis during the quarter, which is where RLI backs out one-time items that can distort the picture when it comes to the company's underlying earnings power. RLI's bottom line was up by 1% compared to the previous year's quarter. RLI Corp's book value totaled $30.97 at the end of the quarter, up by a nice 20% versus the previous year's quarter, although still well below the current share price.

Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
EPS	$2.62	$2.53	$2.08	$2.30	$2.05	$2.57	$2.59	$3.87	$4.69	$4.94	***$5.45***	***$6.32***
DPS	$0.71	$0.75	$0.79	$0.83	$0.87	$0.91	$0.94	$0.99	$1.04	$1.08	***$1.08***	***$1.38***
Shares[3]	43.1	43.5	44.0	44.2	44.5	45.4	45.6	45.7	46.0	45.6	***45.0***	***42.0***

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 reduced the income RLI can generate with its insurance float at times.

Rising interest rates were a positive for the company's profitability during the Fed's tightening cycle, and this cycle is showing similar traits early on in the rate-hiking process. 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.

---

[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.

RLI Corporation (RLI)

Updated February 5th, 2024 by Jonathan Weber

Valuation Analysis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Now	2029
Avg. P/E	17.2	21.1	31.1	34.3	33.7	35.0	39.8	28.9	27.9	26.9	***25.1***	***19.0***
Avg. Yld.	1.6%	1.4%	1.2%	1.4%	1.3%	1.0%	1.0%	0.9%	0.8%	0.8%	***0.8%***	***1.1%***

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 slightly since our last update, and RLI's valuation remains pretty high. We do believe that shares are trading well above fair value and that multiple compression is likely going forward.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	27.1%	29.6%	38.0%	49.7%	42.4%	35.4%	37.1%	25.5%	22.2%	21.9%	***19.8%***	***21.8%***

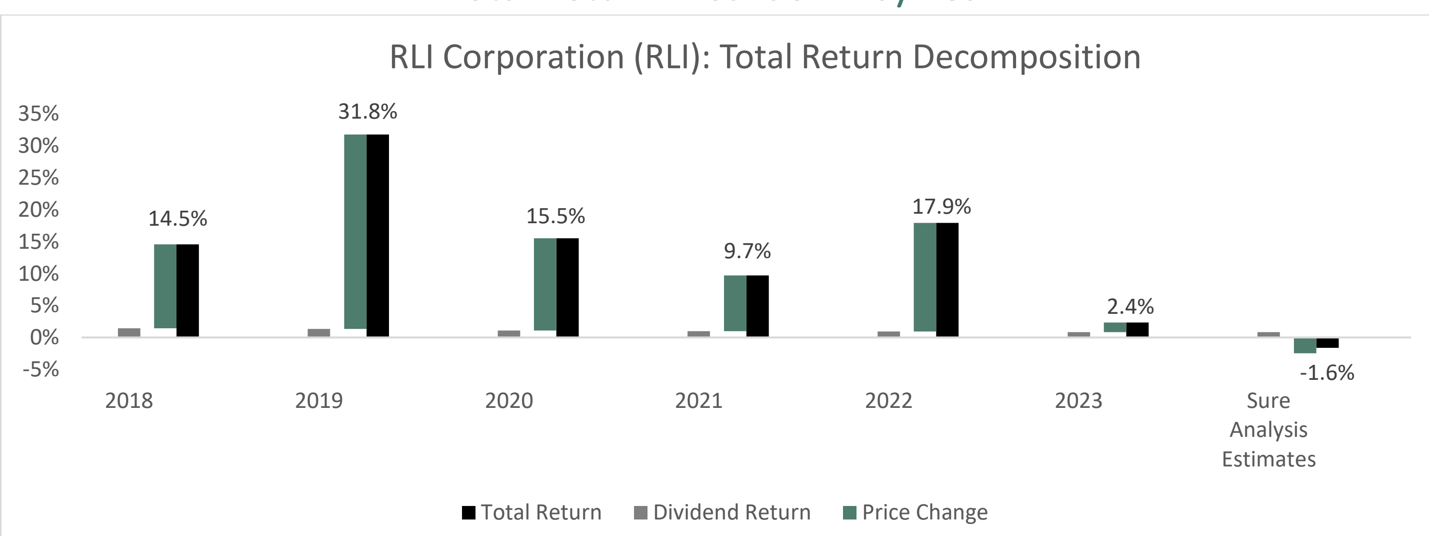
RLI Corporation has raised its regular dividend very steadily over the years, which was possible due to ongoing increases in the company's payout ratio. RLI Corporation still pays out just about one-fifth of its profits in the form of regular dividends, which makes the payout look sufficiently safe for 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 very strong long-term track record, even though results during 2022 and 2023 were strong, while the outlook for 2024 is compelling as well. 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



Click here to rate and review this research report. Your feedback is important to us.

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.

RLI Corporation (RLI)

Updated February 5th, 2024 by Jonathan Weber

Income Statement Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Revenue	777	796	818	801	820	1,007	988	1,184	1,704	1,512
SG&A Exp.	10	10	10	11	9	13	10	13	13	16
D&A Exp.	5	5	6	7	7	8	7	7	8	
Net Profit	135	138	115	105	64	192	157	279	583	305
Net Margin	17.4%	17.3%	14.1%	13.1%	7.8%	19.0%	15.9%	23.6%	34.2%	20.1%
Free Cash Flow	116	143	158	188	211	270	257	377	245	
Income Tax	54	59	42	(20)	3	41	33	65	137	73

Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Assets	2,776	2,735	2,778	2,947	3,105	3,546	3,938	4,508	4,767	5,180
Cash & Equivalents	31	11	18	24	30	46	62	89	23	36
Accounts Receivable	490	442	415	436	518	545	618	775	930	979
Goodwill & Int. Ass.	73	71	64	59	55	54	54	54	54	54
Total Liabilities	1,930	1,912	1,954	2,094	2,298	2,550	2,803	3,279	3,590	3,767
Accounts Payable	38	38	18	22	23	26	42	43	61	72
Long-Term Debt	150	149	149	149	149	149	149	200	200	100
Shareholder's Equity	845	823	824	854	807	995	1,136	1,229	1,177	1,414
LTD/E Ratio	0.18	0.18	0.18	0.17	0.18	0.15	0.13	0.16	0.17	0.07

Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Return on Assets	4.9%	5.0%	4.2%	3.7%	2.1%	5.8%	4.2%	6.6%	12.6%	6.1%
Return on Equity	16.2%	16.5%	14.0%	12.5%	7.7%	21.3%	14.7%	23.6%	48.5%	23.5%
ROIC	13.7%	14.0%	11.8%	10.6%	6.6%	18.2%	12.9%	20.6%	41.6%	21.1%
Shares Out.	43.1	43.5	44.0	44.2	44.5	45.4	45.6	45.7	46.0	45.6
Revenue/Share	17.73	18.05	18.41	18.00	18.30	22.24	21.77	25.89	37.21	32.81
FCF/Share	2.65	3.23	3.56	4.23	4.71	5.97	5.67	8.24	5.34	

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