



Old Republic International Corp. (ORI)

Updated October 27th, 2024, by Josh Arnold

Key Metrics

Current Price:	\$34	5 Year CAGR Estimate:	6.9%	Market Cap:	\$8.8 B
Fair Value Price:	\$32	5 Year Growth Estimate:	5.0%	Ex-Dividend Date:	12/08/24 ¹
% Fair Value:	105%	5 Year Valuation Multiple Estimate:	-0.9%	Dividend Payment Date:	12/21/24
Dividend Yield:	3.1%	5 Year Price Target	\$41	Years Of Dividend Growth:	43
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 almost \$8 billion in annual revenue and its market capitalization is \$8.8 billion. Old Republic also has an outstanding dividend increase streak of 43 years.

Old Republic posted third quarter earnings on October 24th, 2024, and results were better than expected. The company saw earnings-per-share of 71 cents, which was a penny ahead of expectations. Earnings were down from 76 cents per share in Q2, and down from 72 cents a year ago. Revenue was up 9.7% year-over-year to \$2.14 billion, and beat estimates by \$70 million.

Net premiums and fees earned were \$1.93 billion, up from \$1.8 billion in Q2, and \$1.76 billion in last year's Q3. Net investment income was \$171 million, up from \$167 million in Q2, and up from \$146 million in the year-ago period, which was driven by higher investment yields.

The company's combined ratio was 95.0%, worse than 93.5% in Q2, and much worse than last year's Q3 at 91.9%. This reflected lower levels of favorable loss reserve developments.

Book value per share ended the quarter at \$25.71, which was up almost 14% from the end of 2023, which was due to operating income and higher investment valuations.

We now see \$2.95 in earnings-per-share for this year after a solid Q3 report.

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	\$2.95	\$3.77
DPS	\$0.73	\$0.74	\$0.75	\$0.76	\$0.78	\$0.80	\$0.84	\$0.88	\$0.92	\$0.98	\$1.06	\$1.29
Shares²	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 long-term growth rate at 5%.

We see Old Republic as struggling to grow from the 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 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

¹ Estimated date

² Share count in millions

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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.

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	11.5	11.0
Avg. Yld.	4.7%	4.6%	4.1%	3.8%	3.7%	3.6%	4.8%	3.7%	3.8%	3.3%	3.1%	3.1%

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 roughly congruent to 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	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	87%	59%	51%	68%	42%	43%	38%	29%	33%	37%	36%	34%

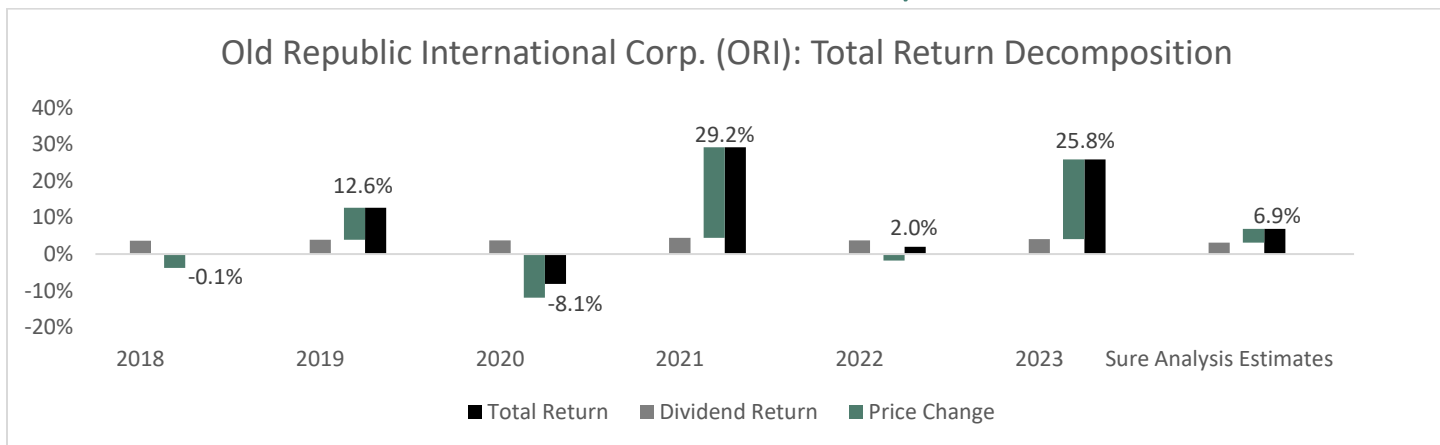
The payout ratio has fallen significantly in recent years. Given slow payout growth coupled with strong earnings, that trend could continue. Overall, Old Republic is in significantly better shape than it was a few years ago. We note the lack of earnings growth projected could see the payout ratio rise 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 over our fair value estimate and offers forecasted total annual returns of 6.9% in the coming years, consisting of the current 3.1% yield, 5% 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, and the lack of a special dividend in 2023. We are reiterating our hold rating following Q3 results, and note that the Title Insurance segment is subject to weak residential real estate conditions.

Total Return Breakdown by Year



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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	880
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	3.08

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

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