

RLI Corp.(RLI)

\$92.43 (As of 01/23/20)

Price Target (6-12 Months): **\$97.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 12/20/19)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:C

Value: F

Growth: B

Momentum: A

Summary

RLI Corp.'s operating earnings of 63 cents per share beat the Zacks Consensus Estimate by 28.6% and improved 57.5% from the prior-year quarter. Its shares have outperformed the industry in the past year. The insurer is one of the industry's most profitable property and casualty writers with an impressive record of underwriting profits. A strong local branch-office network, broad range of product offerings and focus on specialty insurance lines contribute to its profits. Underwriting discipline helps maintain combined ratios at favorable levels. Moreover, the company is focused on boosting its underwriting results and has dropped underperforming products from the property business. Steady increase in dividend, special dividends payout and a solid capital position are other positives. However, exposure to catastrophe loss is a concern.

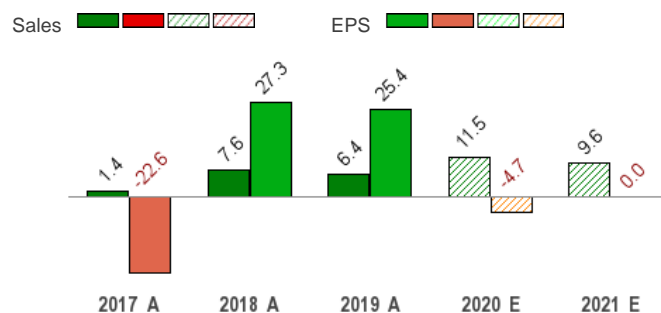
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$99.93 - \$64.53
20 Day Average Volume (sh)	196,280
Market Cap	\$4.1 B
YTD Price Change	2.7%
Beta	0.70
Dividend / Div Yld	\$0.92 / 1.0%
Industry	<u>Insurance - Property and Casualty</u>
Zacks Industry Rank	Top 28% (71 out of 255)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	28.6%
Last Sales Surprise	-1.1%
EPS F1 Est- 4 week change	0.0%
Expected Report Date	04/15/2020
Earnings ESP	0.0%
P/E TTM	36.0
P/E F1	37.7
PEG F1	NA
P/S TTM	4.1

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021					1,109 E
2020					1,012 E
2019	221 A	225 A	229 A	233 A	908 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$0.74 E	\$0.61 E	\$0.56 E	\$0.50 E	\$2.45 E
2020	\$0.73 E	\$0.61 E	\$0.57 E	\$0.50 E	\$2.45 E
2019	\$0.71 A	\$0.66 A	\$0.57 A	\$0.63 A	\$2.57 A

*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 01/23/2020. The reports text is as of 01/24/2020.

Overview

Headquartered in Peoria, IL, RLI Corp. is a specialty property-casualty (P&C) underwriter that caters primarily to niche markets through its main operating subsidiary, RLI Insurance Company. Other subsidiaries include Mt. Hawley Insurance Company and RLI Indemnity Company. The company, founded in 1965, serves 50 states and the District of Columbia.

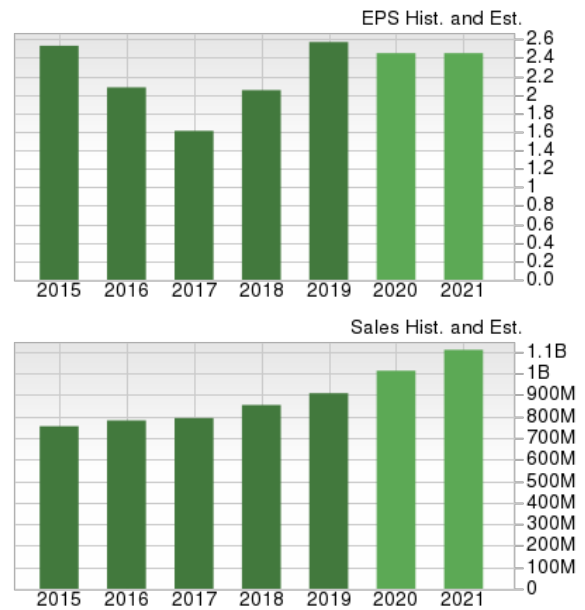
RLI Corp. classifies its operations into three distinct segments ? Casualty, Property, and Surety.

- **Casualty (66.6% of 2019 Net Premiums Earned)** – The segment comprises general liability, personal umbrella, transportation, executive products, commercial umbrella, multi-peril program business, and other specialty coverage. In addition, the segment provides employers' indemnity and in-home business owners' coverage.

- **Property (19.5%)** – The segment provides commercial property coverage, including excess and surplus (E&S) lines and specialty insurance such as fire, earthquake, flood and inland marine. Marine operations include cargo, hull, protection and indemnity, primary and excess liabilities, yachts, and other marine coverage.

- **Surety (13.9%)** – The segment specializes in writing small-to-large commercial and small contract surety coverage, as well as those for the energy (plugging and abandonment of oil wells), petrochemical and refining industries.

RLI Corp. distributes its products through branch offices to wholesale and retail brokers, independent agents and e-commerce channels throughout the United States including Puerto Rico, the Virgin Islands and Guam.



Reasons To Buy:

- ▲ Shares of the company have rallied 40.4% in a year's time, outperforming its industry's increase of 14.4%. Improving top line and a solid capital position would likely help the stock continue with its rally going forward.
- ▲ RLI Corp. has been witnessing a consistent improvement in revenues. Over the last five years (2013-2018), total revenues witnessed CAGR of 3%, primarily driven by higher premiums over the years. In 2019, this uptrend continued with the metric rising 6.4% year over year on the back of higher net premiums earned (up 6% year over year) and net investment income (up 10.9%). Given diversified and compelling product portfolio, focus on introducing new products, re-underwriting several of its products, sturdy business expansion, sustained rate increase and operational strength we expect revenue growth to continue.
- ▲ RLI Corp. is one of the industry's most profitable P&C writers with an impressive track record of underwriting profits. A strong local branch-office network, broad range of product offerings and focus on specialty insurance lines are contributors to its superior profitability. It has also diversified into crop and other assumed property reinsurance and expanded its underwriting team. Moreover, to stay focused on new markets and product expansion opportunities, RLI Corp. has been ramping up its inorganic profile. Notable buyouts include Contractors Bonding Insurance Company, Rockbridge Underwriting Agency as well as a 20% stake in Prime Holdings Insurance Services, a specialty E&S company.
- ▲ RLI Corp. has been witnessing improvement in investment income since 2014 on the back of a larger invested asset base and stable reinvestment rates. In 2019, the company's net investment income grew 10.9% year over year. Growing investment income should continue to aid top line improvement.
- ▲ The company's combined ratio, which reflects its underwriting profitability, has been exemplary. The company has maintained combined ratio below 100 for 23 consecutive years and below 90 for 12 straight years. This solid track record of maintaining the combined ratio at favourable levels even in the toughest operating environment reflects the company's superior underwriting discipline. Combined ratio in 2019 was 91.9%, which improved 280 basis points year over year. The improvement in combined ratio was backed by contributions all major product segments. Moreover, in its effort to boost underwriting results, the company has decided to drop the underperforming products from its property business.
- ▲ RLI Corp. has been paying dividends for 170 consecutive quarters and increased regular dividends in the last 43 straight years. The company's regular quarterly payout has witnessed a five-year CAGR (2014-2019) of 48.6%. In addition, the insurer has also been paying special dividends to its shareholders for the last few years. In May 2019, the company made a 4.5% dividend hike. Its dividend yield of 1% better the industry average of 0.4%, making the stock an attractive pick for yield-seeking investors.
- ▲ RLI Corp. has a sound capital structure, helping it meet the interests of its policyholders, enhance operations in the insurance sector and aid growth in its book value for the long term. Book value per share increased 33% from year-end 2018, inclusive of dividends. The insurer's 12.2% return on equity was also better than the industry average of 6.9%. RLI Corp. maintains a conservative underwriting and reserving policy and continues to achieve favorable reserve releases from the prior years. Its statutory surplus levels are also strong and exhibit an increasing trend. In 2019, statutory surplus grew 24.1% from 2018 end level. The company has a low financial leverage, providing significant financial flexibility to the operating subsidiaries.

RLI's strong local branch office network, broad range of product offerings, focus on specialty insurance lines and impressive record of underwriting profits poise the company for growth.

Reasons To Sell:

- ▼ RLI Corp. has exposure to catastrophe loss, stemming from earthquakes that primarily hit the West Coast and from damages to commercial properties throughout the Gulf and East Coast, as well as to homes, which were damaged by hurricanes in the Gulf and East Coast and Hawaii. Certain storm-related events resulted in a moderate amount of catastrophe losses for the quarter. However, exposure to catastrophes is a lingering concern as natural disasters are unpredictable and induce volatility in a company's earnings.
- ▼ RLI Corp. has been witnessing higher expenses, primarily on increase in insurance operating expenses, general corporate expenses, interest expense on debt plus policy acquisition costs. In 2019, expenses increased 3.3% year over year.
- ▼ RLI Corp.'s valuation looks expensive at the current level. Looking at the company's price-to-book (P/B) ratio, investors may not want to pay any further premium. It currently has a trailing P/B ratio of 4.15, higher than the industry average of 1.44 and at the high end of its five-year traded range of 2.39-4.48. Also, it exceeds the median of 3.2X.

Exposure to cat loss inducing volatility in underwriting profit and increasing expenses from higher losses and settlement expenses and policy acquisition costs weighing on margin expansion concerns.

Last Earnings Report

RLI's Q4 Earnings Surpass Estimates, Increase Y/Y

RLI Corp.'s fourth-quarter 2019 operating earnings of 63 cents per share beat the Zacks Consensus Estimate by 28.6%. The bottom line improved 57.5% from the prior-year quarter.

The quarter benefited from improved premiums from Casualty and Property segments, growth in net investment income and reduced expenses.

Operational Performance

Operating revenues for the reported quarter totaled \$233 million, missing the Zacks Consensus Estimate by 1.1%. The top line however increased 5.4% year over year. This upside can be attributed to higher net premiums earned (up 5.7% year over year) and net investment income (up 4.8%).

Gross premiums written increased 6% year over year to \$273.8 million. This uptick was driven by higher contribution from Casualty and Property segments.

Total expenses decreased 0.2% year over year to nearly \$204.7 million, primarily due to reduced loss and settlement expenses.

Net investment income rose 4.8% year over year to \$17.8 million. Total return from the investment portfolio was 1.8% year over year.

The company reported underwriting income of \$16.5 million, which increased 650% from the year-ago period. This upside was due to solid results at the Property, Casualty and Surety segments.

Combined ratio for the fourth quarter improved 650 basis points year over year to 92.4%.

Financial Update

The company exited the fourth quarter with total investments and cash of \$2.6 billion, up 16.7% from 2018 end levels.

Book value was \$22.18 per share as of Dec 31, 2019, up 22.3% from the figure as of Dec 31, 2018.

Long-term debt was \$149.3 million, up 0.1% from 2018 end.

Statutory surplus improved 24.1% to \$1029.7 million as of Dec 31, 2019 from \$829.8 million as of Dec 31, 2018.

Return on equity was 27.8% for the twelve months ended Dec 31, 2019, reflecting an increase of 2420 basis points.

Net cash flow from operations increased 67.8% year over year to \$90.2 million in the quarter under review.

Dividend Update

On Dec 20, 2019, the company paid out quarterly dividend of 23 cents per share and a special cash dividend of \$1.00 per share. The company returned nearly \$1.25 billion to shareholders in the last 10 years.

Quarter Ending **12/2019**

Report Date	Jan 22, 2020
Sales Surprise	-1.11%
EPS Surprise	28.57%
Quarterly EPS	0.63
Annual EPS (TTM)	2.57

Recent News

RLI Corp. Invests in Technology to Resolve Claims – Dec 3, 2019

RLI Corp.'s main subsidiary RLI Insurance Company's unit RLI Transportation announced the launch of digital accident kits.

With the new digital accident kits, insured drivers of RLI Transportation can now report the details of an accident with an Internet-compatible device. After completing the accident information, they can provide the photos and submit the same to RLI Transportation with the use of smartphone, tablet, iPad or other device.

The usage of digital accident kits enables immediate reporting of claims, which can lead to a significant improvement in customer service.

RLI Corp Announces Quarterly & Special Dividend – Nov 13, 2019

The board of directors of RLI Corp declared a special dividend of \$1.00 per share and quarterly dividend of 23 cents per share. Both the dividends will be paid out on Dec 20 to shareholders of record as of Nov 29.

RLI Corp Gets Ratings Affirmed by A.M. Best – Nov 7, 2019

RLI Insurance Company, Mt. Hawley Insurance Company and Contractors Bonding and Insurance Company (CBIC), the insurance subsidiaries of RLI Corp., have been affirmed the A+ (Superior) financial strength rating (FSR) by the credit rating agency A.M. Best.

The Long-Term Issuer Credit Ratings (ICR) for each RLI company has also been affirmed by the A.M. Best. RLI Insurance Company, Mt. Hawley Insurance Company and CBIC have been affirmed the RLI Corp. ICR of "a" and the ICRs of "aa".

Valuation

RLI shares are up 40.4% over the trailing 12-month period. Over the past year, stocks in the Zacks sub-industry and the Zacks Finance sector are up 14.1% and 12.1%, respectively.

The S&P 500 index is up 25.1% in the past year.

The stock is currently trading at 4.15X trailing 12-month book value, which compares to 1.44X for the Zacks sub-industry, 2.84X for the Zacks sector and 5X for the S&P 500 index.

Over the past five years, the stock has traded as high as 4.48X and as low as 2.39X, with a 5-year median of 3.2X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$97 price target reflects 4.35X trailing 12-month book value.

The table below shows summary valuation data for RLI

Valuation Multiples - RLI					
		Stock	Sub-Industry	Sector	S&P 500
P/B TTM	Current	4.15	1.44	2.84	5
	5-Year High	4.48	1.67	2.9	4.55
	5-Year Low	2.39	1.26	1.83	2.85
	5-Year Median	3.2	1.47	2.51	3.62
P/S F12M	Current	4.07	1.67	6.53	3.6
	5-Year High	4.61	11.26	6.61	3.6
	5-Year Low	2.67	1.6	5.20	2.54
	5-Year Median	3.42	1.92	6	3.00
P/E F12M	Current	37.73	26.8	14.69	19.15
	5-Year High	41.82	31.55	16.21	19.34
	5-Year Low	20.62	22.77	12.01	15.17
	5-Year Median	29.02	25.7	13.98	17.44

As of 01/23/2020

Industry Analysis Zacks Industry Rank: Top 28% (71 out of 255)



Top Peers

Markel Corporation (MKL)	Outperform
ProAssurance Corporation (PRA)	Outperform
The Hanover Insurance Group, Inc. (THG)	Outperform
Arch Capital Group Ltd. (ACGL)	Neutral
Argo Group International Holdings, Ltd. (ARGO)	Neutral
Hallmark Financial Services, Inc. (HALL)	Neutral
Selective Insurance Group, Inc. (SIGI)	Neutral
Axis Capital Holdings Limited (AXS)	Underperform

Industry Comparison Industry: Insurance - Property And Casualty				Industry Peers		
	RLI Neutral	X Industry	S&P 500	AXS Underperform	MKL Outperform	SIGI Neutral
VGM Score	C	-	-	F	F	B
Market Cap	4.14 B	1.80 B	24.46 B	5.27 B	16.31 B	3.96 B
# of Analysts	2	2	13	2	1	2
Dividend Yield	1.00%	1.00%	1.75%	2.61%	0.00%	1.38%
Value Score	F	-	-	C	D	B
Cash/Price	0.02	0.17	0.04	0.24	0.29	0.08
EV/EBITDA	51.47	9.43	14.11	22.42	26.96	14.84
PEG Ratio	NA	1.72	2.04	2.51	NA	2.09
Price/Book (P/B)	4.15	1.26	3.40	1.10	1.53	1.85
Price/Cash Flow (P/CF)	41.48	14.13	13.66	12.77	22.99	14.89
P/E (F1)	38.73	13.89	19.10	12.54	29.98	15.71
Price/Sales (P/S)	4.13	1.06	2.67	1.04	2.04	1.43
Earnings Yield	2.65%	7.19%	5.23%	7.97%	3.34%	6.37%
Debt/Equity	0.15	0.21	0.72	0.33	0.37	0.26
Cash Flow (\$/share)	2.23	3.05	6.94	4.91	51.34	4.47
Growth Score	B	-	-	F	F	D
Hist. EPS Growth (3-5 yrs)	-5.91%	-0.55%	10.60%	-23.80%	-0.95%	11.25%
Proj. EPS Growth (F1/F0)	-4.67%	9.59%	7.59%	92.81%	-2.17%	1.56%
Curr. Cash Flow Growth	26.39%	9.94%	13.90%	-541.78%	174.99%	11.17%
Hist. Cash Flow Growth (3-5 yrs)	-3.04%	7.23%	9.00%	-13.32%	10.64%	13.91%
Current Ratio	0.38	0.44	1.22	0.55	0.60	0.32
Debt/Capital	12.99%	17.79%	42.99%	22.20%	27.64%	20.49%
Net Margin	19.10%	5.34%	11.35%	2.68%	6.75%	8.53%
Return on Equity	12.21%	6.81%	17.10%	2.02%	5.18%	12.83%
Sales/Assets	0.30	0.31	0.55	0.20	0.23	0.33
Proj. Sales Growth (F1/F0)	11.50%	4.75%	4.03%	1.30%	8.95%	5.26%
Momentum Score	A	-	-	F	D	A
Daily Price Chg	-1.70%	-0.18%	0.26%	0.40%	-0.47%	-2.14%
1 Week Price Chg	4.23%	1.93%	2.29%	1.53%	2.63%	3.08%
4 Week Price Chg	3.44%	1.29%	2.24%	5.36%	5.06%	2.54%
12 Week Price Chg	-5.02%	2.93%	7.79%	5.59%	0.81%	-3.65%
52 Week Price Chg	40.39%	8.24%	21.61%	14.42%	13.63%	11.09%
20 Day Average Volume	196,280	106,003	1,536,379	422,001	33,160	179,722
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	0.00%	0.00%	0.00%	-0.40%	0.03%	0.95%
(F1) EPS Est 12 week change	0.00%	-0.52%	-0.23%	-4.97%	4.48%	-4.72%
(Q1) EPS Est Mthly Chg	0.00%	0.00%	0.00%	-1.23%	-7.62%	0.00%

Zacks Stock Rating System

We offer two rating systems that take into account investors' holding horizons: Zacks Rank and Zacks Recommendation. Each provides valuable insights into the future profitability of the stock and can be used separately or in combination with each other depending on your investment style.

Zacks Recommendation

The Zacks Recommendation aims to predict performance over the next 6 to 12 months. The foundation for the quantitatively determined Zacks Recommendation is trends in the company's estimate revisions and earnings outlook. The Zacks Recommendation is broken down into 3 Levels; Outperform, Neutral and Underperform. Unlike many Wall Street firms, we have an excellent balance between the number of Outperform and Neutral recommendations. Our team of 70 analysts are fully versed in the benefits of earnings estimate revisions and how that is harnessed through the Zacks quantitative rating system. But we have given our analysts the ability to override the Zacks Recommendation for the 1200 stocks that they follow. The reason for the analyst over-rides is that there are often factors such as valuation, industry conditions and management effectiveness that a trained investment professional can spot better than a quantitative model.

Zacks Rank

The Zacks Rank is our short-term rating system that is most effective over the one- to three-month holding horizon. The underlying driver for the quantitatively-determined Zacks Rank is the same as the Zacks Recommendation, and reflects trends in earnings estimate revisions.

Zacks Style Scores

The Zacks Style Score is as a complementary indicator to the Zacks rating system, giving investors a way to focus on the highest rated stocks that best fit their own stock picking preferences.

Academic research has proven that stocks with the best Value, Growth and Momentum characteristics outperform the market. The Zacks Style Scores rate stocks on each of these individual styles and assigns a rating of A, B, C, D and F. We also produce the VGM Score (V for Value, G for Growth and M for Momentum), which combines the weighted average of the individual Style Scores into one score. This is perfectly suited for those who want their stocks to have the best scores across the board.

Value Score	F
Growth Score	B
Momentum Score	A
VGM Score	C

As an investor, you want to buy stocks with the highest probability of success. That means buying stocks with a Zacks Recommendation of Outperform, which also has a Style Score of an A or a B.

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