

RLI Corp.(RLI)

\$73.77 (As of 04/27/20)

Price Target (6-12 Months): **\$78.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 03/24/20)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:C

Value: D

Growth: B

Momentum: B

Summary

RLI Corp.'s earnings of 66 cents per share missed the Zacks Consensus Estimate by 9.6%. The top line improved 5.4% year over year. Shares of the company have outperformed its industry in the past year. RLI 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. Strong net investment income should continue to aid top-line growth. RLI's decision to drop underperforming products from its property business also bodes well. However, exposure to catastrophe loss remains concerning. Escalating expenses is also concerning as it can put a strain on margin expansion.

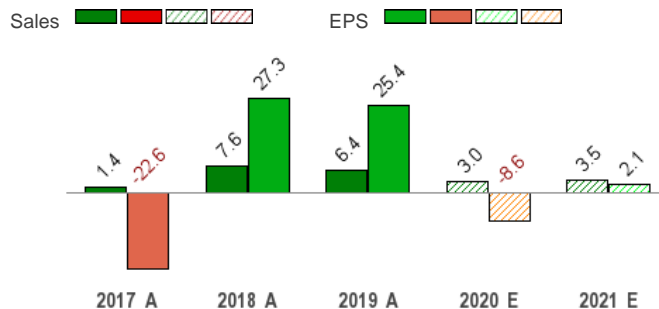
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$99.93 - \$66.02
20 Day Average Volume (sh)	322,334
Market Cap	\$3.3 B
YTD Price Change	-18.1%
Beta	0.55
Dividend / Div Yld	\$0.92 / 1.2%
Industry	Insurance - Property and Casualty
Zacks Industry Rank	Bottom 47% (134 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	-9.6%
Last Sales Surprise	-1.0%
EPS F1 Est- 4 week change	-4.7%
Expected Report Date	07/15/2020
Earnings ESP	0.0%
P/E TTM	29.3
P/E F1	31.4
PEG F1	NA
P/S TTM	3.9

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	232 E	233 E	234 E	235 E	968 E
2020	233 A	233 E	234 E	235 E	936 E
2019	221 A	225 A	229 A	233 A	908 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$0.67 E	\$0.62 E	\$0.55 E	\$0.57 E	\$2.40 E
2020	\$0.66 A	\$0.56 E	\$0.55 E	\$0.58 E	\$2.35 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 04/27/2020. The reports text is as of 04/28/2020.

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.

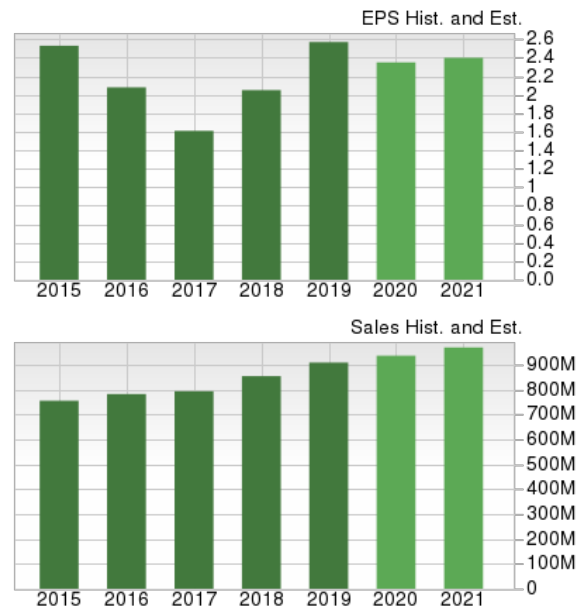
RLI Corp. classifies its operations into three distinct segments ? Casualty, Property, and Surety.

- **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 outperformed its industry in a year's time. 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. Total revenues are primarily driven by higher premiums and net investment income over the years. In first-quarter 2020, net premiums earned and net investment income improved 5.3% and 7.3% year over year, respectively. 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 first-quarter 2020, the company's net investment income grew 7.3% 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 first-quarter 2020 was 92%, which improved 300 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 1.3% is better than the industry average of 0.5%, 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. The insurer's 11.8% return on equity was also better than the industry average of 6.5%. RLI Corp. maintains a conservative underwriting and reserving policy and continues to achieve favorable reserve releases from the prior years. Such a robust capital position provides 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 loss and settlement expenses, interest expense on debt plus policy acquisition costs. In first-quarter 2020, expenses increased 7.8% year over year.
- ▼ RLI Corp.'s debt levels have remained relatively stable in the past few years. As of Mar 31, 2020, the company's long-term debt came in at \$149.3 million, which remained almost flat with the 2019-end level. However, as of Mar 31, 2020 the company's total debt/ total capital ratio of 0.14 is higher than its figure of 0.13 at 2019-end. The company's cash and cash equivalents of \$4.2 million as of Mar 31, 2020 are not sufficient for the company to meet its debt obligations. Also, the company's times interest earned of 10.4 as on Mar 31, 2020 is poor when compared with the 2019-end figure of 31.7, implying that its earnings are not sufficient to cover interest obligations.
- ▼ 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 3.62, higher than the industry average of 1.07.

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 Q1 Earnings and Revenues Miss Estimates

RLI's first-quarter 2020 operating earnings of 66 cents per share missed the Zacks Consensus Estimate by 9.6%. Also, the bottom line deteriorated 7% from the prior-year quarter.

RLI witnessed improved premiums from Casualty and Property segments along with increase in net investment income in the reported quarter.

Operational Performance

Operating revenues for the reported quarter totaled \$233 million, up 5.4% year over year. This upside can be attributed to higher net premiums earned and net investment income. However, the top line missed the Zacks Consensus Estimate by 1.3%.

Gross premiums written increased 6% year over year to \$245.8 million. This uptick can be attributed to solid performance of Casualty and Property segments.

Total expenses increased 7.8% year over year to \$202 million, primarily due to increased loss and settlement expenses, policy acquisition costs and interest expense on debt.

Net investment income rose nearly 7.3% year over year to \$17.8 million. The company reported underwriting income of \$17.2 million, which decreased 23.2% from the year-ago period due to poor performance of Casualty and Surety segment, partially offset by solid performance of the Property segment.

Combined ratio deteriorated 300 basis points (bps) year over year to 92%.

Financial Update

The company exited the first quarter with total investments and cash of \$2.4 billion, down 5.6% from 2018 end.

Book value was \$20.38 per share as of Mar 31, 2020, up 8.1% from the figure as of Dec 31, 2019.

Long-term debt was \$149.3 million.

Statutory surplus decreased 8.4% to \$943.1 million as of Mar 31, 2020 from the number as of Dec 31, 2019. Return on equity was 9.4%, reflecting a decrease of 690 basis points year over year.

Net cash flow used in operations was \$5.8 million in the quarter under review compared to net cash flow provided by operations of \$30.8 million in the year-ago period.

Dividend Update

On Mar 20, the company paid out a cash dividend of 23 cents per share. Dividends totaled \$527 million in the last five years.

Quarter Ending **03/2020**

Report Date	Apr 21, 2020
Sales Surprise	-0.98%
EPS Surprise	-9.59%
Quarterly EPS	0.66
Annual EPS (TTM)	2.52

Recent News

RLI Corp. Announces Quarterly Dividend – Feb 13, 2020

The board of directors of RLI Corp. declared a quarterly dividend of 23 cents per share. The dividend will be paid out on Mar 20 to shareholders of record as of Feb 28.

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.

Valuation

RLI Corp's shares are down 18% and 7.2% in the year-to-date period and over the trailing 12-month period, respectively. Stocks in the Zacks sub-industry and the Zacks Finance sector are down 18.5% and 25.7% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and sector are down 14.9% and down 21.4%, respectively.

The S&P 500 index is down 10.8% in the year-to-date period and down 2.9% in the past year.

The stock is currently trading at 3.62x trailing 12-month book value, which compares to 1.08x for the Zacks sub-industry, 2.09x for the Zacks sector and 4x for the S&P 500 index.

Over the past five years, the stock has traded as high as 4.48x and as low as 2.44x, with a 5-year median of 3.3x. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$78 price target reflects 3.83x 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	3.62	1.08	2.09	4
	5-Year High	4.48	1.67	2.9	4.55
	5-Year Low	2.44	0.93	1.71	2.84
	5-Year Median	3.3	1.46	2.52	3.64
P/S F12M	Current	3.50	1.62	4.96	3.2
	5-Year High	4.61	11.26	6.69	3.4
	5-Year Low	2.80	1.6	4.96	2.54
	5-Year Median	3.46	1.88	6	3.01
P/E F12M	Current	31.18	22.4	14.38	20.21
	5-Year High	41.82	31.55	16.17	20.21
	5-Year Low	21.78	21.06	11.19	15.19
	5-Year Median	29.36	25.4	13.93	17.45

As of 04/27/2020

Industry Analysis Zacks Industry Rank: Bottom 47% (134 out of 253)



Top Peers

Company (Ticker)	Rec	Rank
Arch Capital Group Ltd. (ACGL)	Neutral	3
Axis Capital Holdings Limited (AXS)	Neutral	4
Hallmark Financial Services, Inc. (HALL)	Neutral	3
Markel Corporation (MKL)	Neutral	3
ProAssurance Corporation (PRA)	Neutral	3
Selective Insurance Group, Inc. (SIGI)	Neutral	3
The Hanover Insurance Group, Inc. (THG)	Neutral	3
Argo Group International Holdings, Ltd. (ARGO)	Underperform	4

Industry Comparison Industry: Insurance - Property And Casualty				Industry Peers		
	RLI	X Industry	S&P 500	AXS	MKL	SIGI
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	3	-	-	4	3	3
VGM Score	C	-	-	D	B	B
Market Cap	3.31 B	1.16 B	19.77 B	2.94 B	12.42 B	3.02 B
# of Analysts	2	2	14	2	4	3
Dividend Yield	1.25%	1.25%	2.13%	4.69%	0.00%	1.82%
Value Score	D	-	-	C	B	B
Cash/Price	0.01	0.26	0.06	0.55	0.39	0.10
EV/EBITDA	13.77	5.13	12.09	7.78	4.13	7.71
PEG Ratio	NA	1.73	2.36	NA	NA	7.47
Price/Book (P/B)	3.62	0.92	2.70	0.62	1.12	1.37
Price/Cash Flow (P/CF)	26.61	8.77	10.70	7.83	15.38	9.40
P/E (F1)	32.14	11.02	18.72	8.10	23.80	12.62
Price/Sales (P/S)	3.86	0.74	2.12	0.57	1.30	1.06
Earnings Yield	3.19%	8.78%	5.19%	12.35%	4.20%	7.93%
Debt/Equity	0.16	0.22	0.72	0.41	0.32	0.25
Cash Flow (\$/share)	2.77	3.12	7.01	4.47	58.60	5.38
Growth Score	B	-	-	D	A	B
Hist. EPS Growth (3-5 yrs)	-2.00%	3.05%	10.88%	-22.01%	1.59%	11.47%
Proj. EPS Growth (F1/F0)	-8.56%	9.27%	-5.87%	71.43%	-2.71%	-8.94%
Curr. Cash Flow Growth	25.36%	5.61%	5.92%	-8.72%	13.53%	21.30%
Hist. Cash Flow Growth (3-5 yrs)	0.86%	7.31%	8.55%	-11.78%	9.05%	13.47%
Current Ratio	0.35	0.44	1.23	0.57	0.59	0.30
Debt/Capital	14.02%	18.73%	43.90%	26.09%	25.10%	20.05%
Net Margin	7.57%	8.06%	11.32%	6.25%	18.81%	9.55%
Return on Equity	11.79%	8.18%	16.60%	5.39%	5.51%	12.72%
Sales/Assets	0.25	0.32	0.55	0.20	0.26	0.33
Proj. Sales Growth (F1/F0)	3.03%	0.00%	-1.15%	0.42%	7.12%	2.05%
Momentum Score	B	-	-	A	D	D
Daily Price Chg	6.91%	2.39%	2.63%	2.58%	2.43%	4.66%
1 Week Price Chg	-21.15%	-3.88%	-1.74%	-12.20%	-7.84%	-5.48%
4 Week Price Chg	-17.59%	-0.14%	8.71%	-9.24%	-4.86%	-1.04%
12 Week Price Chg	-22.04%	-22.39%	-17.57%	-46.02%	-23.53%	-24.56%
52 Week Price Chg	-7.28%	-24.03%	-11.60%	-38.52%	-14.78%	-28.08%
20 Day Average Volume	322,334	145,628	2,734,148	935,808	58,141	303,639
(F1) EPS Est 1 week change	-4.67%	0.00%	0.00%	0.00%	-5.32%	-3.61%
(F1) EPS Est 4 week change	-4.67%	-5.21%	-6.57%	-15.79%	-6.22%	-3.22%
(F1) EPS Est 12 week change	-6.00%	-8.14%	-12.64%	-13.72%	-3.87%	-5.50%
(Q1) EPS Est Mthly Chg	-9.68%	-4.41%	-10.33%	-38.55%	-9.26%	-12.04%

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	D
Growth Score	B
Momentum Score	B
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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