

RLI Corp.(RLI)

\$90.14 (As of 07/28/20)

Price Target (6-12 Months): **\$104.00**

Long Term: 6-12 Months

Zacks Recommendation:

Outperform

(Since: 07/28/20)

Prior Recommendation: Neutral

Short Term: 1-3 Months

Zacks Rank: (1-5)

1-Strong Buy

Zacks Style Scores:

VGM:F

Value: F

Growth: F

Momentum: C

Summary

Shares of RLI Corp. have outperformed its industry year to date. The company is one of the industry's most profitable property and casualty writers with an impressive record of underwriting profits. Strong local branch-office network, broad range of product offerings, focus on specialty insurance lines contribute to its profits. Underwriting discipline helps maintain combined ratios at favorable levels. Solid net investment income aid revenue growth. The company's decision to drop underperforming products from property business bodes well. Strong capital position provides financial flexibility to operating subsidiaries. Also, its second-quarter bottom line beat estimates. However, exposure to catastrophe losses inducing underwriting volatility and high cost are concerns for RLI Corp. High leverage and poor times interest earned pose risk.

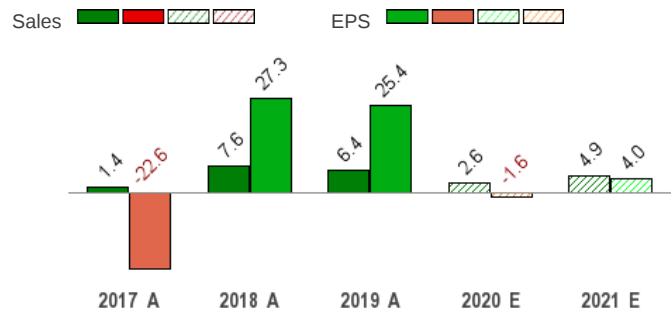
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$99.93 - \$66.02
20 Day Average Volume (sh)	202,678
Market Cap	\$4.1 B
YTD Price Change	0.1%
Beta	0.31
Dividend / Div Yld	\$0.96 / 1.1%
Industry	Insurance - Property and Casualty
Zacks Industry Rank	Bottom 34% (166 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	71.1%
Last Sales Surprise	-3.3%
EPS F1 Est- 4 week change	7.4%
Expected Report Date	10/21/2020
Earnings ESP	0.0%
P/E TTM	34.3
P/E F1	35.6
PEG F1	NA
P/S TTM	4.4

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	232 E	233 E	234 E	235 E	978 E
2020	233 A	226 A	234 E	236 E	932 E
2019	221 A	225 A	229 A	233 A	908 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$0.69 E	\$0.65 E	\$0.59 E	\$0.66 E	\$2.63 E
2020	\$0.66 A	\$0.77 A	\$0.56 E	\$0.57 E	\$2.53 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 07/28/2020. The reports text is as of 07/29/2020.

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.

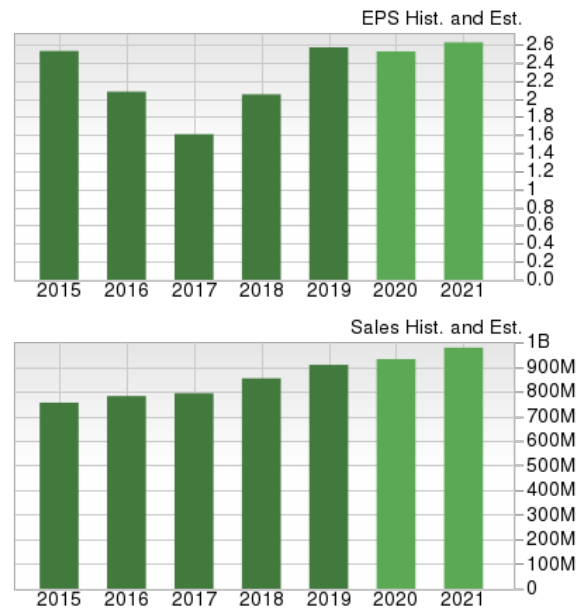
RLI Corp. classifies its operations into three distinct segments ? Casualty, Property, and Surety.

- **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 inched up 0.2% year to date against the industry's decline of 15.2%. Improving top line and a solid capital position would likely help the stock trend higher.
- ▲ 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 half of 2020, net premiums earned improved 2.9% year over year to \$424.3 million. Given diversified and compelling product portfolio, focus on introducing new products, re-underwriting several of its products, sturdy business expansion, sustained rate increase, expanded distribution 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. Underwriting income increased 10.8% year over year to \$41.4 million in the first half of 2020. 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. In first half of 2020, the company's net investment income grew 3.4% year over year to \$34.7 million. 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 the second quarter of 2020 was 88.4%, which improved 440 basis points year over year. The improvement in combined ratio was backed by contributions from 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. In addition, the insurer has also been paying special dividends to its shareholders for the last few years. In May 2020, the company made a 4.3% dividend hike, reflecting a five-year (2015-2020) CAGR of 5.9%. Its dividend yield of 1.1% 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 12% 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.

Risks

- 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 the first half of 2020, expenses increased 1.4% year over year to \$390.5 million. Net margin contracted 90 bps year over year. Such increase in expenses weighs on margins.
 - RLI Corp.'s debt levels have remained relatively stable in the past few years. As of Jun 30, 2020, the company's long-term debt was \$149.4 million, up 0.1% from the 2019-end level. Also, long-term debt to capital of 14% compares unfavorably with the industry's measure of 1.3%. However, as of Jun 30, 2020 the company's total debt/total capital of 12.4 is lower than its figure of 13 at 2019-end. The company's cash and cash equivalents of \$84.4 million as of Jun 30, 2020 was not sufficient for the company to meet its debt obligations. Also, the company's times interest earned of 19 as on Jun 30, 2020 was 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 3.85, higher than the industry average of 1.28.
-

Last Earnings Report

RLI Corp. Q2 Earnings Beat Estimates, Revenues Miss

RLI Corp.'s second-quarter 2020 operating earnings of 77 cents per share outpaced the Zacks Consensus Estimate by 71.1%. The bottom line also improved 16.7% from the prior-year quarter.

The company's results benefited from higher revenues and reduced expenses.

Operational Performance

Operating revenues for the reported quarter totaled \$226 million, up 0.4% year over year. This upside can be attributed to higher net premiums earned, partially offset by reduced net investment income. However, the top line missed the Zacks Consensus Estimate by 3.3%.

Gross premiums written inched up 1.4% year over year to \$287.2 million. This uptick can be attributed to solid performance of Casualty and Property segments. However, net premiums written of \$230.1 million declined 0.4% on a year-over year basis, which is primarily due to lower premiums written in the Casualty and Surety segments.

However, net investment income declined 0.5% year over year to \$16.9 million.

Nevertheless, total expenses declined 4.7% year over year to \$188.5 million, primarily due to lower loss and settlement expenses, policy acquisition costs, insurance operating expenses and general corporate expenses.

The company reported underwriting income of \$24.2 million, which surged 62.4% from the year-ago period courtesy of robust performance of Casualty and Property segments, partially offset by weak performance of the Surety segment.

Combined ratio improved 440 basis points (bps) year over year to 88.4%.

Financial Update

The company exited the second quarter with total investments and cash of \$2.6 billion, up 3.3% from 2019 end.

Book value was \$23.39 per share as of Jun 30, 2020, up 5.5% from the figure as of Dec 31, 2019.

Long-term debt was \$149.4 million, which inched up marginally from 2019 end.

Statutory surplus decreased 0.9% to \$1.02 billion as of Jun 30, 2020 from the figure as of Dec 31, 2019.

Return on equity was 17%, reflecting a contraction of 370 bps year over year.

Net cash flow from operations was \$89.5 million in the quarter under review, up 20.1% from the year-ago period.

Dividend Update

On Jun 19, the company paid out a cash dividend of 24 cents per share, which indicates a hike of 4.3% from the prior dividend payout of 23 cents. Dividends totaled more than \$529 million in the last five years.

Quarter Ending 06/2020

Report Date	Jul 22, 2020
Sales Surprise	-3.28%
EPS Surprise	71.11%
Quarterly EPS	0.77
Annual EPS (TTM)	2.63

Recent News

RLI Corp. Boosts Shareholder Value, Hikes Dividend by 4.3% - May 7, 2020

The board of directors of RLI Corp. recently approved a hike in its quarterly dividend to enhance shareholder value. The company will now pay out a dividend of 24 cents per share compared with 23 cents paid on Jun 20, 2019, which reflects an increase of 4.3%. Shareholders of record as of May 29, 2020 received the increased dividend on Jun 19, 2020.

Valuation

RLI Corp's shares are up 0.2% and down 0.1% 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 15.2% and 18.4% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and sector are down 9.8% and down 13.7%, respectively.

The S&P 500 index are up 0.8% in the year-to-date period and up 8.1% in the past year.

The stock is currently trading at 3.85x trailing 12-month book value, which compares to 1.28x for the Zacks sub-industry, 2.38x for the Zacks sector and 4.43x for the S&P 500 index.

Over the past five years, the stock has traded as high as 4.48x and as low as 2.56x, with a 5-year median of 3.3x. Our Outperform recommendation indicates that the stock will perform better than the market. Our \$104 price target reflects 4.44x 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	3.85	1.28	2.38	4.43
	5-Year High	4.48	1.67	2.9	4.56
	5-Year Low	2.56	0.93	1.72	2.83
	5-Year Median	3.3	1.46	2.53	3.71
P/S F12M	Current	4.20	1.63	6.04	3.57
	5-Year High	4.61	11.26	6.66	3.57
	5-Year Low	2.80	1.4	4.96	2.53
	5-Year Median	3.49	1.85	6.06	3.02
P/E F12M	Current	35.79	24.55	16.34	22.61
	5-Year High	41.82	31.55	16.34	22.61
	5-Year Low	21.85	21.01	11.59	15.25
	5-Year Median	29.75	25.42	14.16	17.52

As of 07/28/2020

Industry Analysis Zacks Industry Rank: Bottom 34% (166 out of 253)



Top Peers

Company (Ticker)	Rec	Rank
Arch Capital Group Ltd. (ACGL)	Neutral	3
Argo Group International Holdings, Ltd. (ARGO)	Neutral	3
Axis Capital Holdings Limited (AXS)	Neutral	3
Hallmark Financial Services, Inc. (HALL)	Neutral	3
Markel Corporation (MKL)	Neutral	4
ProAssurance Corporation (PRA)	Neutral	2
Selective Insurance Group, Inc. (SIGI)	Neutral	3
The Hanover Insurance Group, Inc. (THG)	Neutral	3

Industry Comparison Industry: Insurance - Property And Casualty				Industry Peers		
	RLI	X Industry	S&P 500	AXS	MKL	SIGI
Zacks Recommendation (Long Term)	Outperform	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	1	-	-	3	4	3
VGM Score	F	-	-	F	D	C
Market Cap	4.05 B	1.15 B	22.47 B	3.44 B	13.67 B	3.39 B
# of Analysts	2	2	14	3	2	3
Dividend Yield	1.07%	1.35%	1.84%	4.02%	0.00%	1.62%
Value Score	F	-	-	C	C	C
Cash/Price	0.02	0.25	0.07	0.36	0.34	0.15
EV/EBITDA	16.57	5.38	13.04	9.17	4.60	8.03
PEG Ratio	NA	2.20	2.97	19.74	NA	8.89
Price/Book (P/B)	3.85	1.07	3.11	0.80	1.40	1.62
Price/Cash Flow (P/CF)	32.52	9.77	12.07	9.14	16.94	10.57
P/E (F1)	35.63	13.71	21.52	98.71	115.07	16.53
Price/Sales (P/S)	4.41	0.76	2.35	0.70	1.69	1.21
Earnings Yield	2.81%	6.50%	4.34%	1.00%	0.87%	6.05%
Debt/Equity	0.14	0.26	0.76	0.48	0.37	0.26
Cash Flow (\$/share)	2.77	3.12	7.01	4.47	58.60	5.38
Growth Score	F	-	-	F	C	C
Hist. EPS Growth (3-5 yrs)	0.41%	3.24%	10.85%	-22.09%	2.24%	11.89%
Proj. EPS Growth (F1/F0)	-1.75%	-9.42%	-7.56%	-83.60%	-77.83%	-21.82%
Curr. Cash Flow Growth	25.36%	3.79%	5.47%	-8.72%	13.53%	21.30%
Hist. Cash Flow Growth (3-5 yrs)	0.86%	4.78%	8.55%	-11.78%	9.05%	13.47%
Current Ratio	0.38	0.45	1.31	0.56	0.60	0.32
Debt/Capital	12.44%	20.55%	44.41%	30.01%	27.81%	20.80%
Net Margin	12.70%	4.25%	10.44%	-0.41%	2.66%	8.02%
Return on Equity	12.03%	7.05%	15.10%	-1.86%	3.34%	12.30%
Sales/Assets	0.26	0.31	0.54	0.19	0.22	0.32
Proj. Sales Growth (F1/F0)	2.60%	0.00%	-1.97%	-5.88%	5.74%	0.33%
Momentum Score	C	-	-	F	F	D
Daily Price Chg	-0.93%	-0.08%	-0.80%	-0.07%	-2.21%	-1.13%
1 Week Price Chg	11.30%	0.13%	0.37%	0.17%	8.00%	2.63%
4 Week Price Chg	9.79%	1.50%	3.64%	0.59%	7.51%	7.81%
12 Week Price Chg	23.82%	9.86%	11.56%	13.81%	19.81%	16.35%
52 Week Price Chg	-0.17%	-19.91%	-3.92%	-33.52%	-10.60%	-24.13%
20 Day Average Volume	202,678	112,865	1,867,919	904,606	42,860	240,570
(F1) EPS Est 1 week change	12.22%	0.00%	0.00%	0.00%	0.00%	-0.19%
(F1) EPS Est 4 week change	7.45%	0.00%	0.21%	-50.00%	-51.20%	0.88%
(F1) EPS Est 12 week change	7.45%	-13.69%	-1.29%	-55.32%	-70.17%	-14.14%
(Q1) EPS Est Mthly Chg	1.82%	0.00%	0.09%	-33.33%	-29.41%	33.96%

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	F
Momentum Score	C
VGM Score	F

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.

Disclosures

This report contains independent commentary to be used for informational purposes only. The analysts contributing to this report do not hold any shares of this stock. The analysts contributing to this report do not serve on the board of the company that issued this stock. The EPS and revenue forecasts are the Zacks Consensus estimates, unless indicated otherwise on the reports first page. Additionally, the analysts contributing to this report certify that the views expressed herein accurately reflect the analysts personal views as to the subject securities and issuers. ZIR certifies that no part of the analysts compensation was, is, or will be, directly or indirectly, related to the specific recommendation or views expressed by the analyst in the report.

Additional information on the securities mentioned in this report is available upon request. This report is based on data obtained from sources we believe to be reliable, but is not guaranteed as to accuracy and does not purport to be complete. Any opinions expressed herein are subject to change.

ZIR is not an investment advisor and the report should not be construed as advice designed to meet the particular investment needs of any investor. Prior to making any investment decision, you are advised to consult with your broker, investment advisor, or other appropriate tax or financial professional to determine the suitability of any investment. This report and others like it are published regularly and not in response to episodic market activity or events affecting the securities industry.

This report is not to be construed as an offer or the solicitation of an offer to buy or sell the securities herein mentioned. ZIR or its officers, employees or customers may have a position long or short in the securities mentioned and buy or sell the securities from time to time. ZIR is not a broker-dealer. ZIR may enter into arms-length agreements with broker-dealers to provide this research to their clients. Zacks and its staff are not involved in investment banking activities for the stock issuer covered in this report.

ZIR uses the following rating system for the securities it covers. **Outperform-** ZIR expects that the subject company will outperform the broader U.S. equities markets over the next six to twelve months. **Neutral-** ZIR expects that the company will perform in line with the broader U.S. equities markets over the next six to twelve months. **Underperform-** ZIR expects the company will underperform the broader U.S. equities markets over the next six to twelve months.

No part of this report can be reprinted, republished or transmitted electronically without the prior written authorization of ZIR.