



Erie Indemnity (ERIE)

Updated November 11th, 2024 by Jonathan Weber

Key Metrics

Current Price:	\$422	5 Year CAGR Estimate:	-3.1%	Market Cap:	\$22B
Fair Value Price:	\$253	5 Year Growth Estimate:	5.5%	Ex-Dividend Date:	01/08/25 ¹
% Fair Value:	167%	5 Year Valuation Multiple Estimate:	-9.7%	Dividend Payment Date:	01/23/25 ²
Dividend Yield:	1.2%	5 Year Price Target	\$331	Years Of Dividend Growth:	34
Dividend Risk Score:	A	Retirement Suitability Score:	C	Rating:	Sell

Overview & Current Events

Erie Indemnity is an insurance company is an Erie, Pennsylvania-based insurance company. It does not belong to the largest players in the US, but the company has established itself in fields such as life insurance, auto, home, and commercial insurance. The company's history dates to the 1920s.

Erie Indemnity reported its third quarter earnings results on October 31. The company reported that its revenues totaled \$999 million during the quarter, which was 16% more than the revenues that Erie Indemnity was able to generate during the previous year's quarter. Erie Indemnity's revenue growth was driven by higher management fee revenues (for policy issuance and renewal services) to a large degree, which rose by 19% year over year. Administrative services fee revenue was up by 6%. Erie Indemnity's investment income was up substantially on a year-over-year basis during the quarter, which can be explained by tailwinds from higher interest rates.

Erie Indemnity generated GAAP earnings-per-share of \$3.06 during the third quarter, which was up by 20% from the previous year's quarter's earnings-per-share. Erie Indemnity was thus able to translate its revenue increase into attractive earnings-per-share growth. Earnings-per-share were up slightly during 2022 compared to 2021, but Erie Indemnity was able to grow its earnings-per-share more meaningfully in 2023. The current estimate for this year's earnings-per-share is \$11.50, which would be the best year in Erie Indemnity's history, and which would represent a compelling increase versus the previous year's period.

Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
EPS	\$3.20	\$3.33	\$4.01	\$3.76	\$5.51	\$6.06	\$5.61	\$5.69	\$5.71	\$8.53	\$11.50	\$15.03
DPS	\$2.59	\$2.77	\$2.92	\$3.13	\$3.36	\$3.60	\$3.86	\$4.14	\$4.44	\$4.76	\$5.10	\$6.51
Shares³	46.2	46.2	46.2	46.2	46.2	46.2	46.2	46.2	46.2	46.2	46.2	46.2

Erie increased its earnings-per-share by 11% annually between 2014 and 2023, but that growth was easy to achieve thanks to a relatively low profit base around one decade ago. Back then, interest rates were pretty low, which is why Erie Indemnity's investment income was low as well. Like other insurance companies, Erie Indemnity has a sizable float - cash that it has received through premiums and that it needs to invest, thus the company's results are dependent on market rates, e.g. for treasuries. With interest rates rising in the recent past, Erie Indemnity experienced a big profit increase in 2023, and another big increase is expected for the current year.

Recently, Erie Indemnity has achieved appealing revenue growth, and we believe that revenues should grow in the foreseeable future, too. We believe that Erie Indemnity should be able to grow its profits at a mid-single-digit pace throughout the coming years, with growing revenues being one growth driver, while further increases in investment income could have a positive impact on the company's profit growth as well. Our forecasted long-term growth rate of 5% - 6% is not unattractive for an insurer.

¹ Estimated date

² Estimated date

³ In Millions

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Valuation Analysis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Now	2029
Avg. P/E	24.0	25.9	24.6	31.9	24.1	27.4	43.9	33.9	43.6	39.3	36.7	22.0
Avg. Yld.	3.4%	3.2%	3.0%	2.6%	2.5%	2.2%	1.6%	2.1%	1.8%	1.4%	1.2%	2.0%

Erie Indemnity has traded at relatively high valuations throughout the last decade. In fact, the company's shares were never valued at less than 20 times annual net profits. Right now, shares trade at close to 37 times 2024's expected earnings, which does not seem justified. Based on Erie Indemnity's past record and the forecasted earnings-per-share growth rate, we believe that the company's shares should be valued at around 22 times net earnings.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	80.9%	83.2%	72.8%	83.2%	61.0%	59.4%	68.8%	72.8%	77.8%	55.8%	44.3%	43.3%

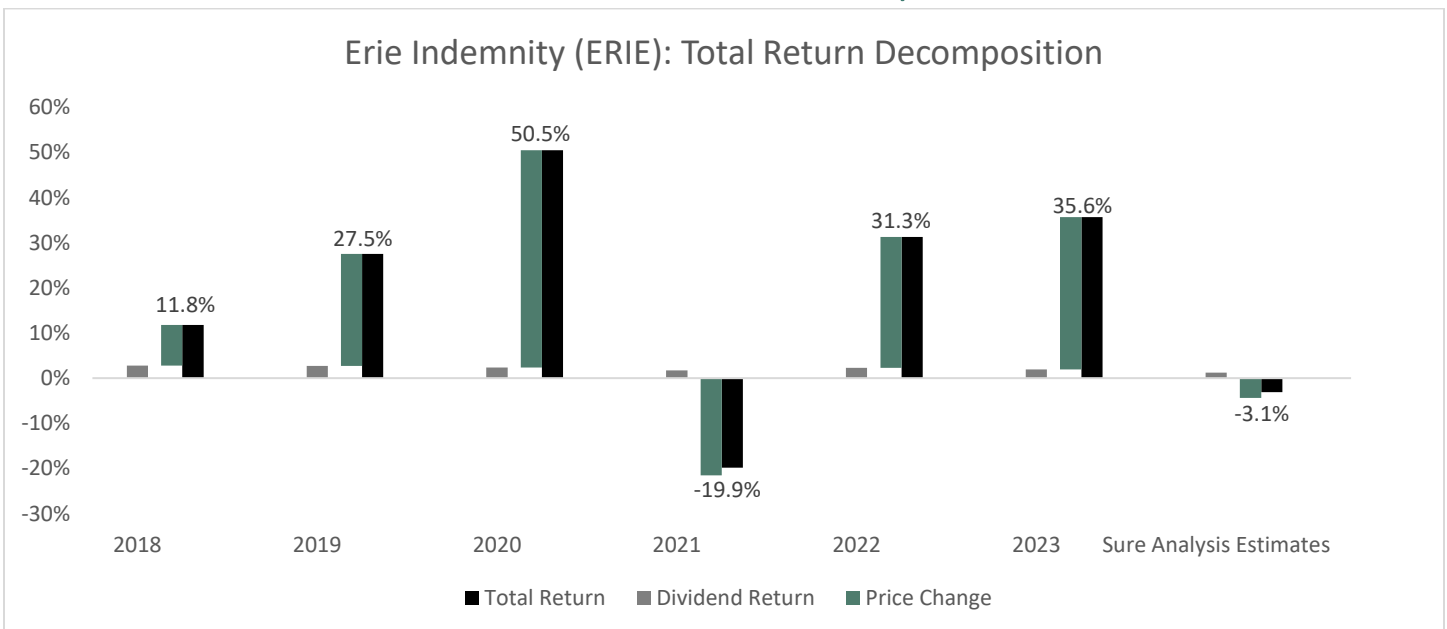
Unlike many other financial companies, Erie Indemnity did not cut its dividend during the Great Recession. Instead, the company continued to raise its payout even during those troubled years, keeping its dividend growth track record intact. The company's solid earnings growth made the dividend payout ratio decline to less than 50%, although the ratio has been a bit volatile in the past. We believe that the dividend is relatively safe.

Erie Indemnity is not an overly large insurance company, it thus does not have any major scale advantages over its peers. But the company was, compared to many other insurance companies and financial corporations, relatively stable during the Great Recession, which is a positive from a risk perspective. Its earnings took a hit, but the company managed to remain profitable and was able to raise its dividend, whereas many peers had to cut their payouts.

Final Thoughts & Recommendation

Erie Indemnity has grown its earnings-per-share at a nice pace in the past. 2024 should be a new record year for the company. The long-term growth outlook is not spectacular, but solid. The high valuation is a huge headwind for Erie Indemnity's forecasted total returns, however. Erie Indemnity looks like a relatively stable insurance company fundamentally, but the high valuation causes shares to earn a sell recommendation at current prices.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Revenue	1,425	1,522	1,617	1,718	2,408	2,517	2,570	2,670	2,851	3,309
SG&A Exp.	207	227								
Net Profit	168	175	210	197	288	317	293	298	299	446
Net Margin	11.8%	11.5%	13.0%	11.5%	12.0%	12.6%	11.4%	11.2%	10.5%	13.5%
Income Tax	84	92	110	119	83	80	75	79	78	116

Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Assets	1,319	1,407	1,549	1,666	1,778	2,016	2,117	2,242	2,239	2,472
Cash & Equivalents	92	183	189	216	266	337	161	184	130	132
Total Liabilities	616	638	732	809	805	883	929	900	791	809
Accounts Payable	36	89	88	105	111	135	151	138	166	176
Long-Term Debt	-	-	25	75	100	98	96	94	-	-
Total Equity	703	770	817	857	974	1,133	1,188	1,342	1,448	1,663
LTD/E Ratio	-	-	0.03	0.09	0.10	0.09	0.08	0.07	-	-

Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Return on Assets	1.9%	12.8%	14.2%	12.3%	16.7%	16.7%	14.2%	13.7%	13.3%	18.9%
Return on Equity	4.1%	23.7%	26.5%	23.5%	31.5%	30.1%	25.3%	23.5%	21.4%	28.7%
ROIC	4.1%	23.7%	26.1%	22.2%	28.7%	27.5%	23.3%	21.9%	20.7%	28.7%
Shares Out.	46.2	46.2	46.2	46.2	46.2	46.2	46.2	46.2	46.2	46.2
Revenue/Share	24.26	25.98	27.63	29.39	41.22	48.11	44.00	51.04	54.52	63.27

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

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