



Forget the Big 5 Banks; Buy These 3 Dividend Growth Stocks Instead

Description

Is there a group of companies that gets more attention than Canada's big five banks?

Royal Bank, Toronto Dominion Bank, Canadian Imperial Bank of Commerce, Bank of Montreal, and Bank of Nova Scotia have more than \$3 trillion worth of assets combined, significant operations around the world, and decades of history. Even though the Great Recession crippled many financial companies around the world, Canada's largest banks were almost unaffected, at least in comparison.

However, because investors focus almost exclusively on Canada's largest banks, they often miss other financial stocks that represent better value or have greater growth prospects. Here are three that should command a little more attention.

1. National Bank

Even though Quebec-based **National Bank** ([TSX: NA](#)) is known as Canada's sixth-largest bank, it doesn't garner nearly the attention that its peers do.

Which is too bad, because investors are missing out on what could be the best value in the sector. National Bank has underperformed the sector over the past year, rising a mere 18%, compared to an average of 25% for its peers. This represents a good buying opportunity for investors to get their hands on the company's generous 4.2% yield.

National Bank has a price-to-earnings ratio of just over 10 times, easily the cheapest in the sector. This is partially because of the bank's exposure to Quebec and its sluggish economy, but things aren't so bad there that the company's P/E should be 25% less than its rivals. This is a good entry point for investors looking for a bargain in the sector.

2. Intact Financial

Formerly known as ING Insurance, **Intact Financial** ([TSX: IFC](#)) was spun off from its Dutch parent back in 2004 and was officially renamed Intact in 2009. It is Canada's largest property and auto insurer, making several small acquisitions along the way, scooping up brands like Grey Power and

Belairdirect.

Intact's recent results have been less than stellar, as it's been saddled with losses from Alberta's floods and Ontario's ice storm. These big events are something that property insurers just have to deal with every few years, so investors shouldn't let short-term results cloud Intact's long-term outlook.

One good thing about so many claims is that it gives the insurer an excuse to push through price increases, much to the chagrin of customers. The company currently has a P/E of 24 times, but that's expected to be cut in half over the next year as earnings normalize. Investors who buy now can get a company that has grown its dividend nearly 50% over the past five years for just 12 times forward earnings. That seems like decent value to me.

3. Genworth Mortgage Insurance

Want to pay less than 10 times earnings for a company with impressive dividend growth, consistent results, and a stock price just a little above its book value? Then **Genworth MI** (TSX: MIC) should be on your radar screen.

Genworth is Canada's largest private mortgage insurer, charging borrowers the exact same premium that federally managed CMHC does. Genworth is usually used by lenders who either got a rejection from CMHC on a borrower's application, or because lenders know Genworth is more likely to approve a certain type of borrower.

You can see why folks who are bearish on Canada's housing market are nervous about Genworth. The company has done internal audits and determined it has plenty of cash set aside in case the market tanks, but the fact remains that a housing slowdown would not be good for investors.

Still, if Canada's housing market manages to somehow successfully complete that soft landing everyone is hoping for, the company's shares will be fine. In fact, investors might even see a relief rally.

Genworth's dividend is currently 3.7%, and has risen annually since the company was spun off in 2009. Its payout ratio is less than 50%, so investors looking for dividend growth should be rewarded with annual increases for years to come.

CATEGORY

1. Investing

TICKERS GLOBAL

1. TSX:IFC (Intact Financial Corporation)
2. TSX:NA (National Bank of Canada)

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