



Forget the Big Banks; Buy These 3 Financial Stocks Instead

Description

It's easy to see why Canada's banks are the main part of many investors' portfolios.

During the 2008-09 financial crisis, banks around the world were thrown into disarray. Dozens of U.S. banks ended up failing, ranging from the tiniest names to some of the biggest in the business. Banks in the UK and Ireland also had to be rescued by their governments. And yet, Canada's banks emerged on the other side, practically unscathed.

After that, our banks got the reputation of being some of the soundest in the world. Who wouldn't want them in their portfolio?

Many banks have also done a nice job expanding outside of our borders. **TD Bank** has operations in the U.S. that account for approximately a third of its business. **Royal Bank of Canada** has business in the Southeast U.S. as well as in the Caribbean, and **Bank of Nova Scotia** has had some nice success with its Central American assets.

But as good as the banks are, there are reasons to look outside of the so-called "Big 5" when it comes to choosing financials for your portfolio. Here are three companies that operate under the radar and are worth looking at.

First National Financial

Dealing exclusively with mortgage brokers, **First National Financial Corp** ([TSX: FN](#)) has quietly become the seventh largest lender in Canada. It has approximately \$50 billion in mortgages under management.

Because First National doesn't market itself directly to customers, this allows it to keep costs much lower than a traditional lender. And because it's the largest non-bank lender in the country, the company has the scale to keep its main expense, the cost of capital, relatively low. The result is fairly predictable profits, which enable it to pay a generous 6.3% dividend.

In 2009, First National made the decision to focus on AAA borrowers, meaning every mortgage it funds

is either insured against default, or comes with a down payment greater than 20%. This makes it a solid company to hold even if the Canadian housing market slows down.

Intact Financial

Through all of its subsidiaries, **Intact Financial Corporation** ([TSX: IFC](#)) supplies home, auto, and business insurance to more than 5 million Canadians in B.C., Alberta, Ontario, Quebec, and Nova Scotia.

Intact is a great operator. It consistently posts a better combined ratio and return on equity than its competitors. It has also posted considerably better loss ratios than the industry average, as well as growing to the size where it's about twice as big as its nearest competitor, Desjardins, boasting a total market share of 16.8% compared to 8.9%.

Plus, Intact has a stellar dividend policy. Since its IPO in 2005, the company's quarterly dividend has nearly tripled, going from \$0.163 per share to \$0.48 per share today. That's good enough for a 2.4% yield. Considering how the payout ratio is less than 40% of Intact's net income, look for dividend increases to continue for the foreseeable future.

Power Financial

Essentially, **Power Financial Corp** (TSX: PWF) is just a holding company. Its major assets include a 67% stake in **Great-West Lifeco Inc.** ([TSX: GWO](#)) and a 58.7% stake in **IGM Financial Inc.** ([TSX: IGM](#)). It also owns 50% of a joint venture that invests in undervalued European securities.

Based on the market cap of each of its subsidiaries, Power Financial Corp. should be worth more than what it is today. The value of its Great-West stake is worth \$22.1 billion, while its ownership in IGM Financial is worth \$7.1 billion. Not even counting its European assets, Power Financial should be worth \$29.2 billion, yet it only trades at a market cap of \$25.1 billion.

Power Financial also pays a nice 4% dividend, which is higher than any of the banks. Look for that dividend to start growing again once higher interest rates make Great-West a little more profitable.

CATEGORY

1. Investing

TICKERS GLOBAL

1. TSX:FN (First National Financial Corporation)
2. TSX:GWO (Great-West Lifeco Inc.)
3. TSX:IFC (Intact Financial Corporation)
4. TSX:IGM (IGM Financial Inc.)

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Date

2025/07/26

Date Created

2014/11/24
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