Intact Financial Corporation: Now Is a Great Time to Buy This Forever Stock

Description

In Canada's financial industry, the banks get all the attention. The life insurance companies are on the radar as well, but for the most part they pale in comparison to the banks.

Lurking in the shadow of the life insurance companies are what I like to call Canada's forgotten financials. These are companies that serve certain niches in the financial market, either in sectors that the banks won't touch or offering a product small enough a bigger player just isn't interested in capturing a piece of the market.

These companies do things like specialty mortgages, back office support, or sub-prime car loans. And for the most part, each has a moat surrounding their niche. So even though they don't get the attention the bigger players get, they still enjoy a similarly dominant position. It's just in a smaller market.

This is exactly the case for **Intact Financial Corporation** (TSX:IFC), Canada's largest insurer of cars, houses, and commercial property. Along with its subsidiaries, Intact insures more than 5 million Canadians either through insurance brokers or directly via its own branded websites. The company has nearly twice the market share as its nearest competitor, even though it only controls 17% of the market.

Intact is all about quality. The company strives to hire the best employees it can to deliver the best performance possible to shareholders. It not only strives to beat the industry average return on equity, but it tries to beat it by 5% annually. The company also consistently has loss ratios lower than its competitors, thanks to stricter underwriting standards.

The property and casualty insurance market in Canada is changing, and Intact is embracing it. Consumers are increasingly going online to get insurance quotes, using online insurance brokers instead of meeting someone face-to-face. Additionally, the new trend in auto insurance is usage-based insurance. Essentially, the insurance company monitors your driving habits and will offer discounts for those who don't speed or drive much.

Usage-based insurance is proving popular with customers, and Intact is taking advantage of it. It has already rolled out the product to brokers in Ontario, Quebec, and New Brunswick, and it's coming to Alberta and Nova Scotia sometime during 2015. By being the first company to roll out usage-based insurance to brokers, Intact has further cemented its leadership position with Canada's nearly 10,000 insurance brokers.

But the big potential in the industry is consolidation. Like I mentioned earlier, Intact is by far the largest home and auto insurer in the country, but still only has 17% of the national market share. There are all sorts of small players that can slowly be acquired.

Intact recently did just that, agreeing to buy Canadian Direct Insurance from **Canadian Western Bank** (TSX:CWB) for $197 million. Canadian Direct wrote approximately $140 million in premiums to residents of Alberta and B.C. in 2014, and Intact expects synergies of $10 million annually with the acquisition. Intact should also be able to increase Canadian Direct's margins thanks to its underwriting strength.

Even though Intact's shares are up approximately 30% over the last year, they're still not expensive. The company's price-to-earnings ratio is just 15.4x trailing earnings and drops to just 13.8x expected 2015 earnings. The company also pays a dividend of 2.4%, which has grown by 55% since the beginning of 2010.

Intact is a great company that has quietly became the leader in its niche. It has a history of being disciplined and delivering above average results, all while trading at a lower valuation than the overall market. I think you'll be pretty happy if you buy shares in the company now and tuck them away for a couple of decades.

CATEGORY

1. Investing

TICKERS GLOBAL

1. TSX:CWB (Canadian Western Bank)
2. TSX:IFC (Intact Financial Corporation)

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nelsonpsmith