Forget Banks. Check Out These 3 Non-Bank Financials Instead

Description

The “big five” banks get all the attention.

One look at the record of any of them and it’s obvious the fuss is much deserved. They dominate the financial landscape in our country, collectively amassing assets in the trillions of dollars, with thousands of branches from coast to coast. In order to avoid dealing with one of the behemoths, consumers have to make an active decision to do so. Most of us don’t bother, gladly willing to deal with the big five.

But just because these companies get all the credit doesn’t mean they dominate the entire financial market. In fact, there are plenty of niches in the financial world that the big banks don’t venture into, either because they’re just too small or another company controls a dominant share. Sometimes these companies even compete with the banks head on, and with quite a bit of success, too.

These types of non-bank financials can be an attractive addition to your portfolio. Let’s take a closer look at three, each doing well in its own niche.

First National Financial

First National Financial Corp (TSX:FN) competes with the banks in the prime mortgage market and it’s doing a pretty good job of it.

First National’s niche is in mortgages that are marketed exclusively to mortgage brokers. There are two advantages to this. First, brokers are more likely to suggest a non-bank lender since they don’t want a client to be swayed by other products offered by a bank. Essentially, brokers think that sending a client to a bank lender is losing them. So, they’re more likely to choose First National.

Second, First National has lower costs because it has no branches. Mortgages are submitted electronically to a central office, where one underwriter can approve dozens of deals per day. That keeps costs much lower than traditional banks.

This results in a much higher dividend than what’s currently offered by the banks, coming in at 7.2%.

The dividend appears to be pretty secure as well, and since just about all of the company's mortgages are insured by CMHC, default risks are low.

Intact Financial

Intact Financial Corporation (TSX:IFC) is Canada's largest insurer of cars, houses, and businesses, with a market share of about 20% nationally.

The company has a couple of advantages compared to peers. Thanks to its size and strict underwriting standards, Intact consistently has fewer claims than its competitors. That leads to better returns for shareholders, as well as more consistent results for the company's investment portfolio, which is worth more than $13 billion.

There's also potential for Intact to consolidate the industry. There are many small-to-medium sized insurers in Canada who are struggling to compete with bigger competitors. Consolidation will be a big story in the industry over the next few years, and Intact has the balance sheet to be a major buyer.

Plus, Intact's dividend growth has been outstanding. When the company became public in 2005, its quarterly dividend was $0.16 per share. After the most recent increase, it's now $0.53 per share.

DH Corp

DH Corp (TSX:DH) has come a long way since its roots as the supplier of paper cheques for Canada's banking industry.

It still supplies cheques, of course, but that's a dying business. The company has moved into the high-tech world, equipping financial institutions, real estate agents, and mortgage brokers with the software needed to do their jobs. The company's software is quickly becoming the standard used by the industry, creating a huge moat. Financial customers will pay for software that works.

Revenue in 2014 jumped more than 30% to $1.14 billion, while profit also increased to $1.32 per share. Analysts are bullish on 2015, predicting profits to nearly double to $2.56 per share. That puts the company at just 15 times forward earnings, which is a reasonable multiple in today's market.

Look for DH to increase its dividend in 2015 as well. Dividends in 2012 and 2013 exceeded earnings, but 2015's projected payout ratio stands to be just over 50%, leaving it plenty of room to reward shareholders with their first dividend increase since 2012.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

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2. TSX:IFC (Intact Financial Corporation)

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