Intact Financial Corporation Is the Perfect Blend of Growth and Income

Description

Despite its $12 billion valuation (making it Canada's largest property and casualty insurance company), **Intact Financial Corporation** (TSX:IFC) isn't mentioned much in the investment world.

It's doubtful that long-term shareholders have noticed, however, as they were likely kept busy with a 73% return over the past five years. Meanwhile, the TSX index experienced a decline of 7%. Income investors have also been pleased, earning an average dividend yield of 2.5% since 2009. The payment has grown from $0.37 a share to $0.53 since then.

Remarkably, these impressive returns have come with surprisingly little volatility. Beta is a measure of a stock's volatility relative to the market. Intact Financial shares have actually demonstrated a *negative* beta, meaning that the stock's movements have very little to do with what happens to the market overall. This is great news for those who are uneasy about the current market.

Here are a few reasons why Intact Financial shares would be a great addition to any long-term portfolio.

Size matters

The profitability of insurance companies is largely a function of two factors: how profitable policies are, and how companies manage their float (investing premiums until they are paid out).

It may be surprising to hear, but most insurance companies don't actually make much money collecting premiums. Typically, insurance firms pay out nearly as much as they collect every year. Last year, for example, the average property and casualty insurance provider paid out 99.4% of everything it brought in.

Slim margins typically have to do with extreme competition and a commoditized product. Over the past decade, thousands of new investment vehicles have focused on providing insurance, driving down the profitability of nearly all types of policies. There are two ways to get around this: focus on a niche product you know well, or gain significant scale, leveraging massive data sets to better price policies. With a leading 17% market share, Intact Financial falls in the latter category.

While the industry last year paid out 99.4% of its revenues, Intact Financial only paid out 94.5%. This outperformance is something the company has managed to repeat nearly every year. More profitable policies, of course, results in higher returns for shareholders. In the past five years Intact Financial has achieved an average return on equity that is 700 basis points higher than the industry, consistently topping over 10%. That’s impressive for such as stable company.

Earnings are loyally paid out to shareholders

As shown, Intact Financial has generated remarkable profitability growth over the past decade. This has resulted in massive returns for shareholders, a primary goal of growth investors. Despite the growth, the company has also been able to boost its dividend every year since 2005–even throughout the financial crisis.

Now yielding a respectable 2.5% with plenty of growth initiative left, Intact Financial shares are a solid fit for income and growth investors alike.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. TSX:IFC (Intact Financial Corporation)

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