Intact Financial Corporation: A Reliable Company in an Unreliable Market

Description

The Canadian property and casualty insurance industry is a mature market. Accordingly, **Intact Financial Corporation** (TSX:IFC) has grown mostly through acquisitions to the leading position it has today with over $7 billion in direct premiums written and a $13.4 billion investment portfolio.

Here is why I see continued growth and strong returns for Intact going forward.

Scale and size provides competitive advantage

The company's scale has given it access to a vast number of claims information that is used to accurately identify trends and more accurately model risk and price products. It has also allowed Intact to build its Rely Network, which has resulted in priority services, lower material costs, and preferred terms with suppliers.

This advantage is evidenced in the company's industry-leading combined ratio of 92.7% in 2015 and its industry-leading ROE. The company's goal is to generate an ROE that is at least 5% higher than the industry. This goal has been exceeded most years.

Broad distribution platform

The company's broad distribution platform ensures greater market coverage and the ability to appeal to different consumer preferences. Intact and Jevco products are offered through more than 2,000 insurance brokerages across Canada, and the company has its direct-to-consumer brands such as belairdirect.

The company is investing in increasing its online presence with online quotes and brokers as consumers are increasingly looking to get their insurance needs met online.

Good track record of consolidation

The company's most recent acquisition of Canadian Direct (with $143 million premiums written) earlier this year is expected to bring $10 million in after-tax synergies and an IRR of over 15%. Also, the acquisition gave Intact a meaningful presence in western Canada.

Intact will continue to be a consolidator

There is still a lot of opportunity for acquisitions as the market remains very fragmented. The top five companies represent 47% of the property and casualty insurance market, with Intact at 17% share.

So Intact plans to leverage its strong balance sheet to continue to be a consolidator in the property and casualty insurance industry. The company targets an IRR of 15% on acquisitions and has been achieving this on average in its past acquisitions. Barriers to entry are high in this business, so this leaves Intact well positioned to continue to be the consolidator in Canada.

Reliable and growing dividends

Dividends have been increased each of the last 10 years, reflecting the company's goal of returning value to shareholders. The quarterly dividend increased 32.5% to $0.53 from $0.40 in 2012 and 230% since 2005 when the quarterly dividend was $0.163.

The stock is not inexpensive, but it is one of those cases where you get what you pay for. Future acquisitions represent upside to the company, and based on its track record of integrating acquisitions, its consistent outperformance of the industry and its history of dividend increases looks good.

CATEGORY

1. Investing

TICKERS GLOBAL

1. TSX:IFC (Intact Financial Corporation)

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