Industrial Alliance Insur. & Fin. Ser. Gets Downgraded: Buy Anyway

Description

Bank of Nova Scotia announced December 5 that it was selling Hollis Wealth to **Industrial Alliance Insur. & Fin. Ser.** (TSX:IAG) for $238 million—a move that significantly enhances the Quebec City–based insurer's wealth management business.

Despite the good news on the acquisition front, Desjardins Capital Markets announced the very next day that it was downgrading IAG from Buy to Hold. Analyst Doug Young sees the 20% jump of its stock price over the last three months as an indication there's not much upside available over the next year.

He's moving on, but not before heaping a little praise on Industrial Alliance and raising its target price to $59.

"The Hollis Wealth transaction looks like a good deal for IAG," Young told his clients in a note. "It's in line with management's strategy of growing in the wealth space."

My sentiments exactly.

Having spent time in the recent past writing for the financial advisory community here in Canada, I can say with certainty that Hollis Wealth has some excellent advisors among its 800 professionals coast to coast; their addition will boost Industrial Alliance's wealth management business by almost doubling assets under administration from $40 billion to $74 billion.

Industrial Alliance paid less than the going rate for Hollis Wealth—0.7% of the $34 billion in assets under administration—a clear sign that BNS, like all banks, is moving away from the independent advisor channel, preferring to use Scotia McLeod and its private banking group to grow its wealth management business.

"This strategic acquisition will place us near the top of the largest non-bank wealth-management advisory firms in Canada with $75 billion in AUA," said Industrial Alliance CEO Yvon Charest in a statement. "The addition of 800 client-focused advisors across Canada will give us a truly national network and additional scale, which will create new growth opportunities."

Industrial Alliance's plan is to grow earnings per share 10% annually over the next three years. In 2016, it expects diluted earnings per share as high as $4.60, which is less than 12 times earnings and considerably higher than the $3.57 per share it made in 2015.

Since 2006, Industrial Alliance has been able to grow its book value per share by 7.2% compounded annually to $39.19—a significantly better performance than **Sun Life** and **Manulife**.

Prior to buying Hollis Wealth, a significant portion of Industrial Alliance's wealth management revenue came from segregated funds and mutual funds. Hollis Wealth will most certainly add a significant amount of ETFs to the total assets under administration. Still looking for acquisitions, it's possible that an ETF provider will be Industrial Alliance's next target.

I expect more than 6% growth from Industrial Alliance stock over the next 12 months.

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1. Investing

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1. Editor's Choice

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1. TSX:IAG (iA Financial Corporation Inc.)

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