Intact Financial Corporation Reported Underwhelming Earnings: Is it Time to Sell?

Description

Intact Financial Corporation (TSX:IFC) is Canada's largest provider of property and casualty insurance with nearly $8 billion worth of annual premiums. The company has steadily grown through acquisitions over the years and will continue to do more to boost the company's earnings and dividend growth.

The company is boring — just how Warren Buffett likes his businesses. It's very unlikely that the business model will change over the course of the next decade, and with this comes a predictable stream of earnings and dividend increases.

Intact has a very solid history of dividend growth. The company has organic growth opportunities to be able to grow its dividend for many years to come. Intact has been able to achieve an average 10% compound annual growth rate (CAGR) over the course of the last decade. The payout ratio has been kept at an average of 49.4% over the last 10 years, which is quite low and leaves plenty of room for future dividend growth.

Underwhelming earnings release could send the stock lower

The company recently released an underwhelming quarterly report which saw net operating income fall to $212 million from $265 million a year ago.

The company announced another dividend raise by six cents to $0.64 per share, which is a good sign that the company's long-term prospects are still strong. **Barclays'** analyst John Aiken stated, "Although we anticipate pressure on Intact's valuation today, we would not expect it to be long lived as Intact Financial Corporation's underlying operations appear to be strong and a 10 percent hike in the dividend illustrates faith in its operations and outlook."

The company is seeing weakness in its personal and commercial auto lines. The management team at Intact stated that its personal auto business had an underwriting loss of $9 million, and the poor performance was in part due to weather-related claims. The commercial auto business also had an underwriting loss which was reported at $3 million. I believe the weakness in the auto lines will be short-lived, and the segment will eventually get back on the upward road.

What about valuation?

The company is not cheap, and it's possible that we could see a sustained pullback to more reasonable valuations in the short term following the recent unimpressive earnings report. The stock currently trades at a 22.55 price-to-earnings multiple, 2.3 price-to-book multiple, and a 1.5 price-to-sales multiple, all of which are higher than the company's five-year historical average multiples of 17.5, 2.1, and 1.3, respectively.

I would not buy the stock right now because there's not much value to be had. If you already own the stock, then I would hang on because the long-term fundamentals of the company are still attractive. If you're a dividend-growth investor, I would keep Intact Financial on your radar and wait for any major dips that may happen this year.

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Date
2025/07/26
Date Created
2017/02/09
Author
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